

## A Voice In The Wilderness

Tan Teng Boo took the bold step of going where few had gone before, and become one of Malaysia's pioneer licensed investment advisors. Bringing a lifelong passion for market analysis and an unshakeable sense of integrity to his chosen profession, Tan built what turned out to be one of the country's most iconoclastic and critical equity research outfits.

*Independent equity research is a path few have taken. Pitfalls abound, and accuracy is everything. One bad call can cancel out a reputation built on a string of good ones*

-By Nazatul Izma, Investors Digest Mid-October 2001

### **IN THE LATE EIGHTIES, TAN TENG BOO CONDUCTED A DETAILED**

post-mortem of his career. Previously, Tan had pursued a peri-patetic path, starting out as an economic journalist with Reuters and zipping through commodities and stockbroking.

However, working for others was losing its appeal. Entrepreneurship beckoned, and Tan was mulling the two options he had already lined up. Should he, an economics graduate and avid researcher and analyst, devote his energies to becoming Malaysia's first independent investment advisor? Or should he abandon his ambition of providing quality independent equity research for the comfortable lucre of building Chinese memorial parks?

In the end, market won over memorial. Tan did not turn glorified undertaker, opting instead to become one of Malaysia's pioneer licensed investment advisors in 1989. The job of selling space in Malaysia's first commercial necropolis was 'rather morbid and decided against it'.

'Also, it was not too prestigious, even though monetarily, it would have been great. After all, it's a sure thing, with demand growing every year,' quips Tan, now managing director of Capital Dynamics Sdn. Bhd. In hindsight, the memorial park concept turned out to be a goldmine.

In a fashion, Tan has come full circle with the setting up of Capital Dynamics in 1988. Stocks have fascinated him since the seventies, when he was in Alor Setar studying at Kolej Sultan Abdul Hamid, Kedah's premier school and the alma mater of two Prime Ministers, the late Tunku Abdul Rahman and Datuk Seri Dr. Mahathir Mohamed.

'I've been following the market since 1972. The bull market of 1972 and 1973 was incredible. Plus, transactions and payments were lax. If you bought a stock, you did not have to pay up until two months later. As a result, there were incredible price jumps. OCBC went from RM3 to RM50 18 months later,' recalls Tan.

'As you can imagine, I was seduced by the entire concept,' he says. In fact, the youthful Tan even contemplated playing stocks full-time while in Form Six, an idea that was swiftly nipped in the bud by his General Paper teacher.

But future events slammed home the lesson that markets and economic forces could also be brutal, and that the motives of people with wealth and power could play havoc with the welfare of the masses.

'The recession of 1985 and 1986 could be considered Malaysia's Depression,' says Tan. Semiconductor, tin, crude oil, palm oil, timber, rubber and property prices plunged. Unit trust values plummeted. 'Certain unit trust companies were literally wiped out in 1985 and 1986. They had a big chunk of their investments in companies linked to Tan Koon Swan such as Pan El. They were managing money on behalf of the public and small investors, who were the most badly affected,' he says.

Times were so desperate, relates Tan, that strangers would enter kitchens begging for food in tin mining areas like Kampar. 'People lost hard-earned money in the crisis. But what came out at that time from the papers and media revealed hidden agendas and such opacity. But the magic of the printed word is such that people think anything printed in the press must be true.'

What Tan perceived as an appalling lack of transparency and mismanagement of funds gnawed deeply at his conscience. 'I decided I could do something about it. Perhaps at that time I had more youthful idealism, or even stupidity, but that tilted the balance.'

Idealistic spirit firmly in place, Tan set out to create a research outfit that would offer quality, independent and objective research. Believing that premium research has to incorporate integrity, Tan insisted that when creating the Capital Dynamics weekly newsletter, *i* Capital, published in English and Mandarin, his staff should always remember this.

'When composing their words, they should remember people's faces. People have trusted us with their money, so when you look at those faces, something truthful should come out.'

This rockbed of old-style values has been instrumental in ensuring the longevity of Capital Dynamics, particularly in an era when new research outfits can close shop almost overnight. Asiastockwatch.com opened with a bang and fizzled out within a month. Malaysiastreet.com lasted about a year.

Explains Tan, 'The benchmark is the marketplace. We would have closed down long ago if we had not passed the toughest test of being able to survive in the marketplace, especially since we only have one source of income. This is a very cruel industry. You can make 99 correct forecasts and one wrong one, but people only remember the wrong ones.'

Strangely enough, few people believed the marketplace was ready for a venture such as Capital Dynamics in 1989. 'Some analyst friends of mine said I should rename the newsletter *Marketwatch* or *Stockwatch*, because a name like *i Capital* was not commercial enough.' It is obvious who had the last laugh.

Tan believes the quality of the content produced by Capital Dynamics is one of the prime factors ensuring its survival. Says Tan, 'Independence should equal objectivity. That distinguishes the quality of our content. It's not how fast your clients make money but how sustainable their profits are, and this boils down to the quality of content.'

Content aside, investors rely on investment advisors for forecasts, ideas and stock and market calls. How accurate has Capital Dynamics been in predicting events and making stock calls?

'I think that we have been right when it comes to making major calls.'

Measured against major indices, says Tan, Capital Dynamics' model paper portfolios – published weekly in *i Capital* – have comfortably outpaced the KLSE's Composite and Emas indices. Section C, a long term portfolio, grew 452.86% since its inception in September 1991, or 18.66% per year. Over the same period, the CI grew just 22.16%, and the Emas index rose 15.28%.

Section D, a medium-term portfolio, grew a cumulative 100.85% since its inception in April 1994 or 9.87% per annum. Over the same period, the CI fell by 28.88% and the Emas index plunged by 40.33%. So, says Tan, if you had invested according to the CI, 'you would have lost money'.

Neither is Capital Dynamics averse to calling a spade a spade. 'We write quite critically and don't pull punches. We actually forecast that the market would go down to 300 points in the dog days of 1997.' And, in a special Depression Watch column in *i Capital*, Tan has been doggedly warning subscribers about the possibility of global depression if the American economic engine were to break down.

Of course, not everybody appreciates such bluntness. 'I was at a wedding in Penang when a woman came up to me and scolded me for forecasting that the index would plunge to 300 points. She said that because of what I said, everybody else had also started giving out similar bearish forecasts, depressing the market.'

Even if that was a self-fulfilling prophecy, the fact remains that Capital Dynamics made an accurate call. Courageous forecasts like those have probably ensured that *i Capital* remains on the subscription list of investors despite its price. At RM720 for 46 issues or a one-year subscription, *i Capital* is relatively expensive compared with Internet-based research houses such as Surf88.com and NetResearchAsia.com or the free research offered by stockbroking firms.

Subscribers are believed to include movers and shakers in both corporate and government circles, and other analysts and fund managers. However, Tan remains tight-lipped on the number of subscribers to *i Capital*.

Judging from his schedule, Tan probably also lacks the time to find out who is actually reading *i Capital*. Since Capital Dynamics got off the ground, life seems to have been one economic crisis after another – with the exception of the halcyon years from 1993 until early 1996 – all requiring mega research efforts.

'From a commercial standpoint, we passed a number of red flag crises – the Gulf War, the 1997 Asian Crisis. And we always expand during a recession. In fact, the crash of October 1987 was the signal to submit the application for the investment advisor license,' says Tan.

So far, Capital Dynamics has moved shop three times, from Jalan Tun Razak to Brickfields, and now, the Plaza Warisan complex smack behind the Klang Bus Station. Is such expansion a sign of prosperity?

Tan says keeping Capital Dynamics going has been a massive challenge. 'This has taken up a huge chunk of my life. Measured against the effort that we have put in and the consistency and quality of advice, it is still an uphill battle. Jack Welch of GE wrote that he managed GE as if the company was on the verge of bankruptcy at any time. And it is the same thing in my case.'

Relaxation is also close to impossible since Tan wears several hats, running both research and operations. He says wryly, 'I would love to have a chief operations officer to take care of administration and operations. If I could just concentrate on analysis, I'd love it.'

Since 1997, his attention has been further preoccupied by one crisis after another. He and his team spend hours on research daily, with Tan logging hundred-hour workweeks. Tan quips, 'It's a good thing the office is in a shopping mall, as the air-conditioning only goes off at 10 p.m.!'

Given his packed workload, Tan has limited time for interests such as ping-pong, and his reading is confined to work-related information, unlike earlier days when this voracious reader devoured the philosophical works of Bertrand Russell and others of his ilk. But he is not complaining.

'Analysis is where my love is. Maybe I'm a masochist. I find it very challenging. In analysis, your performance is measured against objective benchmarks and not the whims and fancies of another person. After 10 years, compare your performance against the indices. Sure, you can rationalise mediocrity by using the Gulf War and the Asian crisis as excuses, but the bottom line is, did you beat the indices?'

'We set out to provide what was not available to investors, research that is very serious. No tips, no rumours, no sensationalism. In the beginning, when we first started, the response was better than expected. But it is still a huge, uphill battle. The greatest challenge has been that we could last so long as an independent investment advisor.'