Don’t be greedy, Eldon advises retail investors

KUALA LUMPUR: With the global stock market rally appearing to lose steam given a lack of fresh leads and a rally “fatigue”, investors are again forced to decide on their next course of action.

For one, a well-known former banker who has been in the corporate world for the past four decades, David Eldon, tells investors, particularly individuals, that it may be time to stop being greedy and to take profit when reasonable gains have been made.

“Don’t try to squeeze the last dollar of profit. Take profit when you’ve made a decent percentage,” he told The Edge Financial Daily in an interview.

Several markets, including the local bourse, reached their year’s highs in October, driven by optimism of a global recovery but have since retreated as key data signals to investors that they could be getting ahead of themselves.

The FBM KLCI reached its 52-week high of 1,270.44 points on Oct 21, while Taiwan’s Taiex rose to 7,811.92 points a day earlier. Singapore’s Straits Times Index rose to 2,739.55 points on Oct 15, while Hong Kong’s Hang Seng Index reached its year’s high of 22,620 points on Oct 23.

Eldon, a Scot who had been chairman, chief executive officer and executive director of the Hongkong and Shanghai Banking Corp (HSBC), and Malaysia CEO of the Saudi British Bank, believes the global recovery is currently unsustainable.

Indeed, markets faltered in the last week of October, after the US reported weak company earnings and an unexpected fall in September housing data.

The Dow Jones Industrial Average (DJIA), which rose to its 52-week high of 10,119.4 on Oct 21, after breaching the 10,000-point level for the first time in a year, failed to maintain its momentum amid the release of weak data.

Indeed, US markets suffered a pre-Halloween scare last Friday with the DJIA tumbling 249.85 points or 2.51% to 9,712.73.

“There is still some correction to come. It may be more selective, but there is a downturn to come, and let’s just hope people in Asia are wise to it.

“The problem in Asia, and perhaps other parts of the world, is that people are reluctant to take a profit if the stock market is still going up. Because they want to reach the top of the market — that doesn’t happen in reality,” Eldon said He was in Kuala Lumpur last week to give a talk to directors of financial institutions, as part of the financial institutions directors’ education (FIDE) programme, which is jointly offered by Bank Negara Malaysia and Malaysia Deposit Insurance Corp. (See page 8 for Eldon’s luncheon talk entitled Over-regulation and Other BS.)

Among other positions, Eldon is a senior adviser at PricewaterhouseCoopers Hong Kong, chairman of the Dubai International Financial Centre Authority and Singapore-listed Noble Group Ltd, a commodities trading company.

Eldon said stock markets were something he felt strongly about, as institutional investors often led the market’s rise or fall, leaving retail investors to pick up the pieces.

“When institutional investors enter the market, this becomes a bit of a self-fulfilling prophecy because once you start buying into equities, they start to rise. Then retail investors come in, because they see the market rising, and continue to go in as it keeps rising.

“Once things start to turn, for example if company results don’t come out as good as anticipated, or interest rates start to rise, and people can now put money in banks instead of stocks, institutional investors are the first to leave the market.

“Their money comes out in big chunks, so the market starts to fall. Who’s left holding the baby? Retail investors,” Eldon said.

Meanwhile, he said with more problems in the Western economies yet to surface, “there may very well be another downturn coming”, though it would not be as severe as the one just past.

Challenges for regulators

On the role of regulators in helping to stem crises, Eldon said it would be difficult for them to restrict businesses in a free economy.

“For example, do you tell Goldman Sachs there is a limit to the business they can do, and the authorities will regulate and that’s the end of the story? Do the good people of Goldman go off and start off their own company and do exactly what they were doing there, or should they be regulated in the same way?

“Where do you draw the line? This is one of the problems of doing business in a free economy. The moment you start putting restrictions, the economy has much less freedom in it,” he said.

Eldon also said while this might not be desirable, it was a fact that had to be accepted as such was the nature of the world economy.

But ultimately, he said, public opinion could have a big influence in how markets would be regulated.

On whether increased competition could help markets avoid the excesses seen in recent times, such as via the demerger of big banks, he said while this could happen, its implementation would depend on the willingness of the market to carry it out.

Asked what action could be taken once a bubble is perceived, he said this was not possible as people often thought situations differ from one crisis to another.

“History will tell you that we don’t seem to remember anything. If there was something that we could have done, we surely would have done it.

“But people say, it’s different this time. That was how the bubble was created the last time. And it very rarely is that different,” he said.

He also said if there were a way to “prick the bubble”, the question then arose of who would do it, adding it would be a major challenge for the world’s regulators to make a concerted effort to manage global economic and financial problems.

“It requires a lot of resolve from world leaders to actually say to themselves, we are going to effectively say to the world, this is what you’re going to have to put up with. For example, with the euro, because it is managed from a centre, monetary policy may suit Germany but not Spain, or benefit Ireland, but not other members.

“If you try to translate all of that into doing something for the globe, I think it will be extremely difficult to do,” he said.

Where Asia stands

During his talk at the FIDE programme, Eldon said one main reason why the Asian financial services industry had been shielded from the West's financial crisis was the lack of sophisticated financial products here.

Despite this, however, he said the industry here had succeeded in growing and would continue to do so, albeit in a more controlled manner.

"That gives it a good future. You have two choices, either really let the brakes off, or you do it in a gradual way. You can take it step-by-step, and China is particularly good at this. If we continue that sort of policy, it's fairly basic, and it may not be terribly exciting, but it'll save you from getting into huge problems," he said.

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Eldon tells retail investors not to wait to squeeze out the last ringgit from their stock purchases. They should sell when they've chalked up a decent percentage. Photo by Chu Juck Seng