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Stock Market Simulation

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Yung-Wei Tang

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Professor Dalin Tang
Project Adviser

Abstract

In this project, a literature review about investment strategies in the stock market was conducted first. Then by analyzing the investor's personality and knowledge background, the most suitable investment objective and investment strategy were selected. 10 stocks from 5 countries were selected to do an eight-week short-term stock market trading simulation trying to apply theoretical knowledge to real stock market trading and investment. The experience and knowledge learned will be very helpful for future real-life investment.

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Chapter 1: Introduction

1.1 Goal of the project

The objective of this project is to study the basic principle of the stock market and to learn ways to select right stocks based on different investment strategies and risks by using the short term trading method. First, companies from different industries are reviewed. Then 10 stocks with strong backgrounds or high potentials are selected among those companies. Secondly, selection of an appropriate investment strategy and using it to identify a goal (risk goal and return goal). The simulation allows using \$100,000 in the time period of seven weeks. Chapter 1 is focusing on the discussion of the relationship between global and Asian economies and the reasons why Asia is selected. The following chapters are discussions on the differences between each investment strategy and result. The last chapter is about the achievements and learning experiences from this project.

1.2 The relationship between global, US and Asia economies

Global economic has been grown stably. The past performance of Asia stocks seems following the global trend. However, in the beginning of the year, the incident of Liverdoor has a huge impact on stock market in Japan and the Asia market. Luckily, Japan quickly recovers the stockholders' confident. This negative effect does not

continue though out the year.

Another major incident that may have some influence for Asia regional stock market is the issue of inflation over the world. It starts as the rising of gasoline prices, which causes the US consumers to spend more on daily consumption. This potentially results in raise of expectation inflation. The US government tries to offset this phenomenon. As the result, Fed raises interest rate immediately. The raising of interest rate causes a drop in peoples' willingness of investment on real estate. Instead, people save their money in the bank. This series of incidents causes the downturn of US economic and US property market. Two important indicators that may prove the downturn of US economic are lower mortgage and CPI (consumer price indexes). From the index below (figure 1.1), the downward concave curve implies the property market is bad at this time. The downturn of US economic may lead to some downside effect to Asia market. Since the US foreign export may decrease, this may cause some downside on the major supplier's economy. The major suppliers of US export mainly are located in Asia.

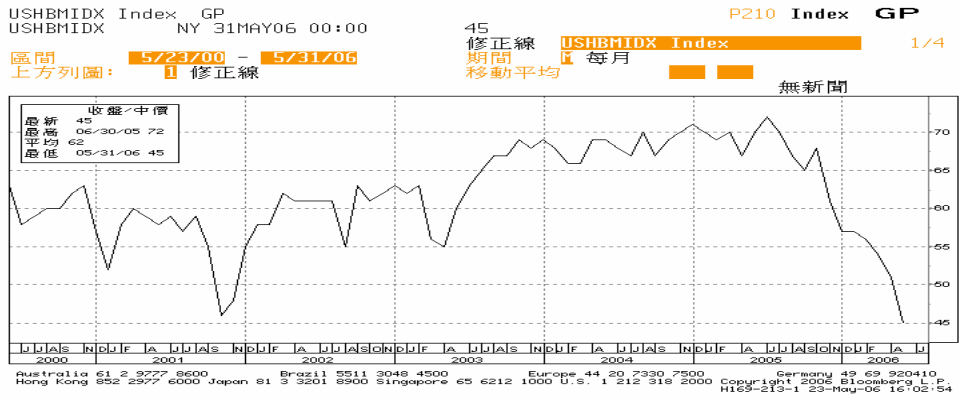


Fig. 1.1 basic chart of US mortgage from the year 2000 to 2006, April[7].

1.3 The reasons for selection of Asia

1.3.1 The criteria used

Three important keys to indicate the status of a good investment are the P/E, P/B Ratio and Sales Growth. The Price to earnings ratio (P/E ratio) is a valuation ratio of a company's current share price compared to its per-share earnings. Even if Discounted Cash Flow is a superior method to value a company, sometimes investors prefer to use simpler methods. The P/E ratio is used for measuring market performance and can be calculated as:

Price to Earnings Ratio (P/E ratio)

$$1. \text{ P/E Ratio} = \frac{\text{Market Value per Share}}{\text{Earnings per Share}}$$

$$2. \text{ P/E Ratio} = \frac{\text{Average Common Stock price}}{\text{Net Income per Share}}$$

Fig1.2 Equation of P/E Ratios

Price to Book Ratio is a stock analysis statistic in which the price of a stock is divided by the reported book value (as of the date specified) of the issuing firm. The lower P/E and P/B ratio are, the better investment reward will be. The higher a sales growth is the better performance of an economic entity is, as shown Figure1.2 [reference 8].

1.3.2 Rationale

Compared with other regions the region of Asia except Japan has a relatively lower P/E value, a lower P/B value and a much better Sales growth during 2004-2006. This means in comparison to the global economy this region implies a better return on investment.

Market	P/E ratio			Sales growth (%)			P/B ratio		
	2004	2005	2006E	2004	2005	2006E	2004	2005	2006E
US	18.7	n.a.	14.5	12.4	12.4	8.7	3.09	n.a.	2.74
Europe ex UK	17.1	n.a.	12.8	2.8	7.0	7.0	2.53	n.a.	2.17
Pan Europe	16.5	n.a.	12.6	2.4	5.3	6.9	2.54	n.a.	2.23
UK	15.2	n.a.	12.3	1.2	2.4	6.6	2.56	n.a.	2.35
Japan	19.0	n.a.	17.7	6.4	7.7	3.8	2.09	n.a.	1.94
Asia x Japan	13.4	n.a.	12.1	22.3	18.0	9.6	3.62	n.a.	1.84
Global	18.3	n.a.	14.1	7.4	8.6	7.0	2.73	n.a.	2.43

Source: Credit Suisse HOLT, I/B E/S estimates, Credit Suisse research database

Table 1.1 Global regional valuations [4].

Furthermore, leading by Japan, China and India, the Asia equity market kept at high-level growth. Evidence could be GDP performances in these countries not only remained positive, but largely above the general. In Japan, after more than a decade in the doldrums, the first quarter this year, Japan's GDP posted a 1.9% up tick, which shows a robust recovery from the past 12 years. At the meantime, while the average GDP around the world is 4.9%, according to IMF, China has a projected GDP growth of 8.2 % in 2006. In India, the past few years, the country's GDP all-time remained at around 7%. Particularly, Asia equity market except Japan has the lowest P/E, the highest sales growth

and the lowest P/B ratio compared with the leading equity market. It composes one of the reasons that the target region selects to be Asia exclude Japan [7].

According to Bloomberg, the crude oil has jumped 40 percent in 2005, and it has risen a further 12 percent this year. Since the rising oil prices hinted a potential inflation, central banks all over the world tended to curb the economic growth by increasing interest rates to restrain inflation consequently the stock markets around the world have fallen. This also impacts the stock markets in the target region [7].

1.4 The background of Asia regional stock markets

1.4.1 Hong Kong

1. Trade data surprised on the downside in April, with total exports slowing to 9.4% year on year (YoY) in HK\$ terms while imports eased to 11.2% YoY. Given the continued healthy state of global demand, the experts expect Hong Kong 's exports to only moderate gradually over the course of this year, partly due to slower US consumption though this should be offset by the continued strength of Chinese demand while expansions in Japan and the euro area should also remain

- very supportive of global trade [4].
2. The strength of local consumption surprised on the upside in April, with retail sales growth edging up to 9.4% YoY in value. The outlook for domestic consumption should remain solid. This is the reason Esprit Holdings and Dickson Concepts, two of Hong Kong leading retail companies, are selected for the portfolio [4].

1.4.2 Malaysia

1. The first round of negotiations has started for the United States and Malaysia free-trade agreement (FTA) which both countries are targeting to finalize by end of 2006. The FTA will likely boost both Malaysia merchandise and services trade with the U.S. [4].
2. The 12% electricity tariff hikes approved for June 1 have limited implications for Malaysia CPI inflation forecast. The experts said that the electricity tariff hike would directly contribute only about 0.07% to headline CPI inflation [4].
3. Industrial production (IPI) in April was disappointing, with year-on-year growth decelerating to 4.7% from 4.8% in March. This merely reflects the temporary export slowdown in the same month that was driven by a near-term region-wide

soft patch in the electronics segment [4].

4. The outlook on the external front remains positive, as global electronics demand receives a fresh impetus from demand for consumer-related electronics products this year.

1.4.3 Korea

1. The bank of Korea hiked its overnight call rate to 4.25% on the early of June, which is likely to be its last policy action for this year. The market had been anticipating no change. While the hike was understandable, it does not help fragile confidence and sluggish domestic demand. The minor hike is unlikely to pull back the property market much either. Market analysts said that another 75-100bps would be appropriate [4].
2. Korean confidence has taken a hit in recent months and should continue to weaken in the coming months, due to uncertainty about the domestic economy [4].

1.4.4 Singapore

1. CPI inflation held steady at 1.1% YoY in May, below consensus expectations of

- 1.2%. On a month-on-month seasonally adjusted basis, CPI eased to 0.0% in May after posting 0.2% in April. Big-ticket items such as food and housing costs were largely stable, while transport and communications posted its smallest contraction since December 2004. This is likely due to a combination of a higher pass-through of global oil prices to local petrol prices and recovering car prices [4].
2. Although CPI is looking benign in first half of 2006, CPI inflation may be close to an average 2%. The main upside risk to inflation is global oil prices, which continue to hover around \$70 per barrel. As the latest inflation data show, this will increasingly be reflected in local pump prices, along with rising car prices [4].
3. According to above Singapore economy analysis, Singapore stock market could be relative stable compared with other Asian stock markets.

1.4.5 Thailand

1. Inflation rose higher than expected in May by 6.2% year on year, compared to 6.0% YoY in April. Seasonally adjusted data suggests that cost-push price pressure is still building within the economy, which should force the bank of

Thailand (BoT) to maintain a tightening bias on interest rate policy until there are clear signs of easing [4].

2. Inflationary momentum is still upwards, noted in the core CPI and non-fuel related components. Core CPI eased a little in May to 2.7% YoY from a seven-year high of 2.9% YoY in April, but the MoM change is at a 10-month high. PPI inflation surged markedly in May to 11.6% YoY, driven by the 9.1% YoY rise in the manufactured goods sector [4].
3. With the latest hike in place, the Thailand real repo rate and deposit interest rate are still negative (about -1.1% and -1.6%, respectively), indicating that real monetary conditions are still accommodative [4].
4. Based on high CPI figures and negative real interest rate in Thailand, Asian Property Development Public Company Limited, a property developer and an inflation defender, is added to the portfolio [4].

1.4.6 Taiwan

1. CPI inflation surprised on the upside at 1.6% YoY in May, beating market expectations for 1.2% YoY. But core CPI inflation remains stable, up 0.7% YoY from 0.6% YoY in April, while headline inflation is still averaging lower

than 2005's 2.3% YoY [4].

2. The economists doubt that Taiwan faces a substantial inflation threat yet, as an appreciating exchange rate and lackluster domestic demand should help dampen price pressure [4].
3. In the Taiwan stock market, the politics is a marginal negative factor, but it will pressure the market only with some unexpected developments. I don't expect much from the cross-strait policies either [4].
4. The most positive driver for the market is when the data momentum improves from its current weakest seasonality. Chinatrust Financial Holding, a stock supports by valuation, is select to the portfolio.

Chapter 2: Investment Strategies

During the process of investment, there are many steps should be taken. First of all, objective should be set based on personal need and expectation. Secondly, a comprehensive plan should be made based on the study of environmental factors such as economy, political effects, and personnel's portfolio. Those studies increase the precision of the investment. Lastly, one should select a good transactional strategy and an appropriate trading method.

The chapter begins with the discussion of the strategies to manage an investment and the investor's objectives from the point of required and desired return. Then follow by evaluation of the existing market risks. Lastly, one transactional strategy and trading method is selected base on best achievement of ultimate investment return.

2.1 Investment Strategy Introduction

The three most common kinds of strategies a manager will choose are Active Strategies, Passive Strategies, and Hybrid Strategies.

Active Strategies

An active equity manager attempts to add value through one (or more) of three strategies. The first strategy can be called *marketing timing*. Basically, this is the decision to move funds in or out of the equity market in an attempt to enhance returns. In reality, it is as much an asset allocation strategy. The second strategy can be thought of as *theme selection*. This could be to overweight specific industries or sectors versus others that are under weighted, or to emphasize factors such as growth or yield. For international portfolio, a good example of theme selection is the selection and over or under weighting of countries. The final strategy is to add value through *the selection of individual stocks* [1,9].

Passive Strategies

A portfolio that does not engage in stock selection and does not engage actively in market timing to theme selection can be thought of as passive. Passive management is a strategy of holding a portfolio of generic securities, without attempting to outperform other investors through superior market forecasting or superior ability to find miss-priced securities. Often, although not always, a passively managed equity portfolio is well diversified. The simplest type of passive portfolio is an index fund. An index fund is a

fund designed to mirror the performance of a published benchmark. The most popular benchmark for domestic equity index funds is the S & P 500, while for the international index funds it is the EAFE. [1,9].

Hybrid Strategies

A passive portfolio is constructed to replicate the performance of a benchmark, and an active portfolio is designed to add value over and above that benchmark. In the late 1980s, money managers introduced a hybrid strategy that combines active decisions with passive technology. The manager believes that he has skill in certain areas and is willing to take risk in those areas in pursuit of excess return. In all other ways, the portfolio is managed passively. The development of performance attribution models has given us the necessary tools to create this type of equity portfolio management approach [1,9].

2.2 Investment objectives

The required return and desired return are major consideration for an investment objective. Required return is major factor for an investor's major long-term financial objective and desired returns usually acted as secondary influential factor. There are 4

common kinds of investment objectives; these are **Capital appreciation, Total return, Current Income, and Capital preservation.**

First, **Capital appreciation** is an investment objective focusing on the growth of capital. This kind of investment is more risky, because in order for a firm's capital to grow significantly large quantities of money have to put in R&D and Equipments. This kind of investment has higher returns or losses therefore its risk premium is highest. This targeted the group for this kind of investment is likely younger in age and likely to be risk takers. A risk taker is an investor like to pursue an aggressive strategy.

Second, **Total Return** is an investment objective focusing on portfolio growth. This kind of investors need portfolio to grow in real terms over time, to meet future needs, and also to focus on return through both capital appreciation and fixed income. This kind of investment is in between a Capital Appreciation and Current Income investment.

Third, **Current income** is an investment objective focusing on fixed income. The current income provides stable income though out the years. This kind of investment is more conservative and the return is stable, therefore has lower risk premium. A current

income investment may be more accepted by elder, since the income from investment could be use for their living expenses.

Last, **Capital preservation** is an investment objective focusing on the preservation of capital price and market value. This kind of investment attracts very conservative groups who want to minimize their risk of losses. This kind of investment uses more conservative strategies and is more likely to be used by older investor who need risk-averse [5].

Depending on investor behaviors, whether they are risk-taking or risk-averse individual, the investment project with right level on risk premium could be a sound advice to them.

2.3 Stock market risks

“Risk premium is the reward for holding a risky asset above the risk free asset.” which means the premium return is used to compensate investors for owning riskier assets over the bonds. Investment risk is categorized according to the two sources of investment return: a macro, pervasive factor such as the national economy and micro,

localized factors such as the company itself. The risk associated with macro factors is called systematic risk; returns depend in a systematic and associated way on that factor. The micro risks associated with factors particular to a company are called unsystematic risk or unique risk; investment returns are uniquely determined by the firm's underlying earning power, such as its turnover of assets, its operating margin, and its return on assets and equity. [10]

(1). Pervasive Risks

Exchange rate risk: uncertainty of returns to an investor who acquires securities in a currency different from his or her own. This is the risk that the asset's value will be affected by changes in exchange rates. Such changes will impact the total loss or gain on the investment when the proceeds are converted back to the investor's home currency.

Country risk: this is also referred to as political risk and is the uncertainty caused by a major change in the political or economic environment of a country. This addresses the possibility that political events, economic and financial problems, or natural disasters or such other events will weaken a country's economy and cause investments in that country to decline.

Purchasing power risk: This is the chance that investment returns will be better or

worse than expected because of the sole influence of price of inflation (or deflation).

Because the only reason to invest is to earn a positive real rate of return, purchasing power risk is a major concern for all portfolio managers and clients. This risk transcends international boundaries.

Interest Risk: the chance that returns will be better or worse than expected because of changes in the level of interest rates. These prices of all investment assets tend to rise as interest rates decline, and vice versa. This inverse relation pervades all investments, although not to the same degree.

Business risk: the uncertainty of income flows (operating cash flows) caused by the nature of a firm's business, which could be affected by factors such as poor management, low product demand, or high operating expense. It can also be viewed as the risk of a firm not being able to cover its operating expenses.

(2). **Unsystematic risk**

Financial risk: uncertainty introduced by the method in which the firm finances its investments (its capital structure). It can be thought of as the risk of not being able to service financial commitments such as interest, lease payments, etc.. Similar to operating expenses, these financial costs also increase the volatility of a firm's net income.

Liquidity risk: uncertainty introduced by the secondary market for an investment.

Liquidity of an asset is determined by how quickly it can be sold without loss to fair market value. Liquidity risk is the risk arising from the difficulty of selling an asset or investment at its market value. This could be caused by a weak (or nonexistent) secondary market. Treasury bills are highly liquid (low liquidity risk) while real estate assets have very low liquidity (high liquidity risk) [5].

2.4 Transactional strategy

In stock markets, people are trying to find out the way to get lots of money; therefore, they come out many personal habits and rule. Some of investors like to get data back in history and use the information to predict what might happen to the market in the future. Some of them like to buy and sell many times in a short period of time and get the largest profit. According to different people's investment behaviors, we can easily make five major categories.

Scalping: the scalper is an individual who makes dozens or hundreds of trades per day, trying to generates trading profits from stocks that are not moving, make tiny profits from each trade by buying a stock on the bid and then turning around and selling at the ask. The scalper's role is exactly the same as that of the market maker, a dealer who, by trading stock from his or her own inventory, maintains an orderly market in any given stock.

Momentum Trading: Momentum traders look to find stocks that are moving significantly in one direction on high volume and try to jump on board to ride the momentum train to a desired profit. Usually this type of investors want to get real time information every day before the market opens, so they will get up an hour earlier, goes online and immediately logs into one of the popular trading chat rooms. These people always look at stocks that are the focus of trading alerts based on earnings or analyst recommendations.

Technical Trading: Technical traders are obsessed with chart and graphs, watching lines on stock or index graphs for signs of convergence or divergence that might indicate buy or sell signals. In general, a technician is the one who looks back in history, using the recognizable patterns of past trading data to try to predict what might happen to stocks in the future.

Fundamental trading: Fundamentalists are aware of the most common financial data used in fundamental analysis which examines things like corporate events such as earnings per share, revenue and cash flow. These quantitative factors can include any figures found on a company's earnings report, cash-flow statement or balance sheet; these factors can also include the results of financial ratios some thing like return on equity and debt to equity. Fundamental traders may use such quantitative data to identify trading opportunities.

Swing trading: Swing traders are closed to fundamental traders who hold their positions longer than a single day. Most fundamentalists are actually swing traders since changes in

corporate fundamentals generally require several days or even weeks to produce a price movement sufficient enough for the trader to claim a reasonable profit [5].

2.5 Trading method

When placing an order with a broker, it is very important to make sure one is placing the order properly. Correct placement of an order saves time and assures that one is doing what one intended to do. All orders are considered day orders and will expire the day one place it unless one specify that one want it to be a “Good Till Canceled” order. Here is a listing of some of the most common order types.

Market order: An order to buy or sell a specific number of shares at the best available price once the order is received in the marketplace. Normally, a market order is executed at the quoted price given before the order was entered, or at a price quite close to the quote. However, if the security is volatile, the execution price could be better or worse than anticipated.

Limit order: To avoid buying or selling a stock at a price higher or lower than one’s wants, one needs to place a limit order rather than a market order. A limit order is an order to buy or sell a security at a specific price. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. When one places a market order, one can’t control the price at which one’s order will be filled.

Short sale: A short sale is generally the sale of a stock one does not own. Investors who sell short believe the price of the stock will fall. If the price drops, one can buy the stock at the lower price and make a profit. If the price of the stock rises and one buy it back later at the higher price, one will incur a loss. [5]

Chapter 3: Stock chosen

In this chapter, all companies' background information is presented first, followed by the reasons why each stock is chosen in the whole Asian emerging market area.

3.1 China Medical Technologies (Bloomberg: CMED US)

3.1.1 Company Briefs

China Medical Technologies, Inc. is a China-based medical device company that develops, manufactures and markets products for the treatment of solid cancers and benign tumors in China. The Company's high-intensity focused ultrasound (HIFU) therapy system has been used to treat over 20,000 patient cases. The Company principally conducts its operations through Beijing Yuande Bio-Medical Engineering Co., Ltd., which became its subsidiary in January 2005 as part of a corporate reorganization [2,4].

3.1.2 Investment Highlights

1. Chinese government policy changes should provide good opportunities for domestic medical device manufacturers. Possible changes include new regulations on imports,

which could help domestic firms gain market, and the extension of public medical care may boost demand growth.

2. The growth potential for China Medical Technologies' blood test diagnostic device is very promising. The Company expected its earnings CAGR for next three years to exceed 25%.
3. The PE is 20.6x CY06 EPS, which is relative lower than 23.7x the average of the NASDAQ-listed medical devices small cap (less than US\$2 bn) companies that are expected to grow on an EPS basis[2,4].

3.1.2 Financial Highlights:

Year	3/04A	3/05A	3/06E	3/07E
Revenue (RMB mn)	110.8	217.5	370.7	543.1
Net profit (RMB mn)	61.6	118.4	190.1	232.3
EPS (RMB)	3.1	5.9	6.9	8.5
EPS growth (%)	n.a.	92.4	16.9	22.2
P/E (x)	56.6	29.4	25.2	20.6
P/B (x)	205.8	109.8	31.3	21.7
ROE (%)	45.4	46.6	15.6	16.0

Table 3.1 Basic Financial condition of **China Medical Technologies** in March.

3.2 Esprit Holdings (Bloomberg:330 HK)

3.2.1 Company Briefs

Esprit Holdings Limited is a lifestyle brand headquartered in Hong Kong. The Company offers 12 product lines including women's wear, men's wear, children wear as well as shoes and accessories through over 630 directly managed retail stores and over 9,700 wholesale point-of-sales worldwide. Esprit also operates the Red Earth cosmetic brand that sales cosmetics, skin care and body care products [2,4].

3.2.2 Investment Highlights

1. New growth markets in Asia are looking promising. Esprit's China JV more aggressive growth strategy is taking hold and yielding 30% sales growth; Middle East, India are doing well, while Korea is on track to opening a first store in FY07 with its new partner.
2. Esprit's current 16 x FY07 P/E is miss priced. It has the chance to go back to 22x P/E the normal status [2,4].

3.2.3 Financial Highlights:

Year	6/04A	6/05A	6/06E	6/07E
Revenue (HK\$ mn)	16,356	20,632	23,308	28,083
Net profit (HK\$ mn)	2,003	3,218	3,658	4,561
EPS (HK\$)	1.68	2.69	3.03	3.77
EPS growth (%)	67.3	60.0	12.8	24.2
P/E (x)	35.8	22.4	19.8	16.0
P/B (x)	13.3	10.2	9.0	7.6
ROE(%)	37.0	47.4	45.2	47.4

Table 3.2 Basic Financial condition of **Esprit Holdings** in June.

3.3 First Pacific

3.3.1 Company Briefs

First Pacific is a Hong Kong-based investment and management company with operations located in Southeast Asia. Its principal business interests relate to Telecommunications and Consumer Food Products. Listed in Hong Kong, First Pacific's shares are also available in US through American Depositary Receipts[2,4].

3.3.2 Investment Highlights

Because the market is catching up with the currency movements between the US dollar and the Peso/Rupiah, First Pacific's recent share price has totally restructured. Furthermore, economists recently have revised their currency assumptions, together with

the affiliates share price appreciation as well [2,4].

3.3.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
EBITDA (US\$ mn)	216.8	197.6	318.2	356.6
Net profit (US\$ mn)	116.8	117.2	173.8	247.7
EPS (US\$)	0.04	0.03	0.05	0.07
EPS growth (%)	67.3	16.9	40.1	59.0
P/E (x)	12.3	14.8	10.5	6.6
ROE (%)	21.0	14.6	17.7	22.1

Table 3.3 Basic Financial condition of **First Pacific** in December.

3.4 Jardine Matheson (Bloomberg: JM SP)

3.4.1 Company Briefs

Jardine Matheson Holdings Limited is an Asia-based conglomerate with interests in Hong Kong Land Holdings Ltd (35% interest), Dairy Farm International Holdings Ltd (62% interest), Mandarin Oriental International Ltd (59% interest), Jardine Cycle & Carriage Ltd (50% interest), Jardine Pacific Holdings Ltd (100% interest), Jardine Motors Group Holdings Ltd (100% interest), Jardine Lloyd Thompson Group plc (31% interest), Jardine Strategic Holdings Limited (80% interest) and Rothschilds Continuation Holdings AG (18% interest). These companies are in the business of operating supermarkets,

hyper markets, health and beauty stores, convenience stores, home furnishings stores and restaurants; property development, investment, leasing and management; motor trading; insurance broking; transport services, engineering and construction; information technology services; hotel management and ownership; automotive, financial services, agribusiness and heavy equipment, and investment banking[2,4].

3.4.2 Investment Highlights

1. At the current share price of US\$17.85, Jardine Matheson shares trade at 37% discount to its forward NAV of US\$28.4.
2. The current steep discount to NAV and an estimated three-year core EPS CAGR of 18% should offer investors strong comfort in the jittery market. Jardine Matheson's share price was relatively unscathed amid the regional markets volatility [2,4].

3.4.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
Net profit (US\$\$ mn)	394	463	528	653
EPS (US\$\$)	1.12	1.34	1.54	1.9
EPS growth (%)	35.6	19.9	14.5	23.8
P/E (x)	15.9	13.3	11.6	9.4
ROE (%)	17.6	5.2	4.8	5.3

Table 3.4 Basic Financial condition of **Jardine Matheson** in December.

3.5 Jardine Strategic (Bloomberg: JS SP)

3.5.1 Company Briefs

Jardine Strategic Holdings Limited is a holding company with its principal interests in Jardine Matheson (which was mentioned on the previous section), Hong Kong Land, Dairy Farm International, Mandarin Oriental, and Jardine Cycle & Carriage. It also has a 20% interest in Rothschilds Continuation Holdings AG [2,4].

Hong Kong Land is a property group. Dairy Farm is a pan-Asian retail group operating over 3,160 outlets, including supermarkets, hypermarkets, health and beauty stores, convenience stores, home furnishings stores and restaurants. Mandarin Oriental is an international hotel investment and management group. Jardine Cycle & Carriage is a

holding company with an interest of just over 50% in the Indonesian conglomerate, PT Astra International Tbk, and motor trading interests in Southeast Asia [2,4].

3.5.2 Investment Highlights

1. Jardine Strategic is expected to show respectable core earnings growth over the next two to three years – a three-year core EPS CAGR of 19.4% in FY05-07E.
2. At the current share price of US\$10.8, Jardine Matheson shares trade at 42.8% discount to its forward NAV of US\$18.9 [2,4].
3. Jardine Strategic should be a defensive out performer.

3.5.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
Net profit (US\$\$ mn)	404	474.8	555	674
EPS (US\$\$)	0.66	0.78	0.93	1.13
EPS growth (%)	45.0	18.5	19.3	21.4
P/E (x)	16.4	13.9	11.6	9.6
ROE (%)	21.2	16.1	6.7	7.8

Table 3.5 Basic Financial condition of **Jardine Strategic** in December.

3.6 Tencent Holdings (Bloomberg: 700 HK)

3.6.1 Company Briefs

Tencent Holdings Limited is an investment holding company. The Company, along with its subsidiaries, is principally engaged in the provision of Internet and mobile value-added services, and online advertising services to users in the China. The other operations of Tencent Holdings Limited comprise provision of trademark licensing and instant messaging services in the enterprise solution. The Company operates its businesses in China (excluding Hong Kong) and all related assets are located in the China [2,4].

3.6.2 Investment Highlights

1. Tencent 1Q06 net profit was RMB 250mn, up 102% QoQ. All businesses have delivered robust growth in 1Q06. 2006 EPS were upgraded by 60% due to strong 1Q06 result.
2. Potential earnings surprise is likely given continuous new product development.

Tencent is the top pick of its sector [2,4].

3.6.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
Revenue (RMB mn)	1,144	1,426	3,066	4,196
Net profit (RMB mn)	441	485	1,171	1,570
EPS (RMB)	0.28	0.27	0.64	0.86
EPS growth (%)	16.4	(6.0)	141	33.9
P/E (x)	53	56.4	23.4	17.5
P/B (x)	10.0	9.1	6.7	5.1
ROE (%)	16.6	13.5	29.6	29.9

Table 3.6 Basic Financial condition of **Tencent Holdings** in December

3.7 UEM Builders (Bloomberg:UEMB MK)

3.7.1 Company Briefs

UEM Builders Berhad (UEM Builders) is an investment holding company. The Company, along with its subsidiaries and associates, operates in three business segments: engineering and construction, infrastructure maintenance and toll concession. The engineering and construction segment is engaged in project design, management and contracting in the fields of civil, electrical and mechanical engineering, pavement construction, operation and manufacturing of quarry products, premix, wetmix and stainless steel pipes and other engineering services. The infrastructure maintenance segment is engaged in infrastructure maintenance and facilities management [2,4].

3.7.2 Investment Highlights

1. UEM Builders 1Q2006 net profit of RM41mn (versus a RM 15 mn loss in 1Q05) is well ahead of market expectations.
2. The group construction business turned profitable on its Middle East projects [2,4].

3.7.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
Revenue (RM mn)	1,638	1,365	1,458	1,873
Net profit (RM mn)	72	(259)	94	147
EPS (RM)	0.07	(0.27)	0.1	0.15
EPS growth (%)	(28.6)	n.a.	n.a.	56.5
P/E (x)	14.0	n.a.	10.6	6.8
P/B (x)	1.2	1.9	1.6	1.4
ROE (%)	16.6	13.5	29.6	29.9

Table 3.7 Basic Financial condition of UEM Builders in December

3.8 Hite Brewery Co. (Bloomberg: 000140 KS)

3.8.1 Company Briefs

Hite Brewery Co., Ltd. is a Korea based manufacturer and distributor of a range of beverages. The Company primarily produces beer under such brands as Hite, Prime, Stout, Exfeel and Hite Saeng. The Company's distilled liquor, Soju, is manufactured under the C-One Soju and Hite brands. Hite Brewery also offers bottled water under the

Puriss brand. In addition, Hite Brewery distributes foreign brand products, such as Carlsberg, Fosters, Lancelot, Cutty Sark and various kinds of wine. Headquartered in Seoul, Korea, the Company operates through its subsidiaries, which include Hite Industrials Co., Hiscot Co., Hite Distillers Co., Hite Alcohol Co., Hite Development Inc. and Hite Soju Co. During the year ended December 31, 2005, the Hite Brewery produced 1,147,235 kiloliters of beer and bottled water and the sale of beer accounted for 98% of total sales [2,4].

3.8.2 Investment Highlights

1.2Q operation results may show some improvements from: 1) better beer market environment and 2) margin improvements from marketing subsidizing.

2. The value of Jinro Soju Company (not listed, 42% stake owned by Hite) is not reflected in Hite's share price at all. Jinro Soju Company will be listed early next year [2,4].

3.8.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/07E
Revenue (W bn)	861	853	883	944
Net profit (W bn)	102.5	63.1	92.8	148
EPS (W)	5,713	4,073	5,961	8,679
EPS growth (%)	(7.9)	(28.7)	46.3	45.6
P/E (x)	16.7	23.5	16.0	11
P/B (x)	2.0	1.9	2.0	1.7
ROE (%)	12.2	7.2	9.8	14.1

Table 3.8 Basic Financial condition of **Hite Brewery** in December.

3.9 Tenaga Nasional (Bloomberg: TNB MK)

3.9.1 Company Briefs

Tenaga Nasional Berhad, along with its subsidiaries, is an electrical utility company in Malaysia. The Company's activities are the generation, transmission and distribution of electricity to residential, commercial and industrial customers throughout Malaysia. The Company generates a capacity of over 11,138 megawatts of electricity. Tenaga Nasional has a complete power supply system; including a national grid, customer service centers, call management centers and administrative offices. Through its subsidiaries, the Company is also engaged in the manufacture of transformers, high-voltage switchgears and cables; the provision of consultancy services, architectural, civil and electrical engineering works and services, and repair and maintenance services, and the

provision of research and development services, property development services and project management services[2,4].

3.9.2 Investment Highlights

1. With the tariff hike, Tenaga PE valuation is now very attractive relative to its regional peers, especially taking into consideration that its net profit growth will be CAGR of 43% p.a. for the next three years.
2. With improved cash flow, Tenaga enters a virtuous cycle. It is able to pay down debt and possibly increase dividends.
3. Tenaga is trading at the bottom of its historical P/E, P/B ranges [2,4].

3.9.3 Financial Highlights

Year	8/04A	8/05A	8/06E	8/07E
Revenue (RM mn)	17,712	18,978	20,635	23,700
Net profit (RM mn)	1,386	1,258	1,908	3,345
EPS (RM)	0.35	0.31	0.47	0.83
EPS growth (%)	27	(11.2).	51.7.	75.3
P/E (x)	24.6	27.7.	18.2	10.4
P/B (x)	2.3	2.2	1.9	1.6
ROE (%)	9.6	8.1	11.2	17

Table 3.9 Basic Financial condition of **Tenaga Nasional** in August

3.10 Asian Property Development Public Company Limited

3.10.1 Company Briefs

Asian Property Development Public Company Limited is a Thailand-based company primarily engaged in real estate development. The Company's projects are comprised of townhouses, condominiums and single-detached houses under the brand name Baan Klang Krung, Baan Klang Muang and The City. During the year ended December 31, 2005, Asian Property Development operated 12 residential projects in Bangkok and vicinities. Through its 10 subsidiaries, the Company is also engaged in construction business and construction material distribution [2,4].

3.10.2 Investment Highlights

1. Asian Property Development reported a net profit of Bt233mn, up 150% YoY and 10% QoQ. The earnings were in-line with our forecast.
2. AP with launch a promotional campaign called Amazing Zero, which give buyers discounts and better mortgage payment plans. The promotion aims to help accelerate buyer's decision-making processes.
3. With the new promotion, we have revised up slightly our sales forecast from Bt6.2bn to Bt6.4bn, but revised down our gross margin estimate to 32.5%. The net impact is

a 4% decline in our FY06E forecast [2,4].

3.10.3 Financial Highlights

Year	3/04A	3/05A	3/06E	8/073
EBITDA (Bt\$ mn)	1392	998	1354	1833
Net profit (Bt\$ mn)	1010	644.7	979	1274
EPS (Bt\$)	0.44	0.28	0.43	0.56
EPS growth (%)	18.1	35.7	51.6	30.1
P/E (x)	9.1	14.1	9.3	7.2
ROE(%)	28.9	18.5	22.9	25.8

Table 3.10 Basic Financial condition of **Asian Property Development** in March

3.11 Dickson Concepts (Bloomberg: 113 HK)

3.11.1 Company Briefs

Dickson is a HK retailer that has expanded its business into Taiwan (22% of group sales) and Mainland China (20% of group sales). The patchy sales in Hong Kong (58% of group sales) persisted though local-specific and with an uneven impact on individual brands. Dickson's Taiwan business continues to come under the pressure of the consumer credit crunch, although it seems to be outperforming its peers. Of those HK retailers, Dickson is the one with visible acceleration in its China momentum, after its 13 years operating there [2,4].

3.11.2 Investment Highlights

1. Current trading in Hong Kong and Taiwan remains patchy/tough for macro reasons.

Disciplined buying and markdowns, and its signature conscientious cost control leave

Dickson in a comfortable position.

2. Dickson's growth story is taking a breather for now, but the company remains solid and

the stock inexpensive on a short-term and medium-term view.

3. Due to its high growth from continued store openings at an anchor tenant cost

advantage and its signature disciplined margin management, I decide to invest in

Dickson [2,4].

3.11.3 Financial Highlights

Year	3/04A	3/05A	3/06E	8/073
Revenue (HK\$ mn)	2,610	2,803	3,072	3,599
Net profit (HK\$ mn)	120	203	211	236
EPS (HK\$)	0.47	0.65	0.68	0.76
EPS growth (%)	151.3	39.5	3.7	12.2
P/E (x)	19.2	13.8	13.3	11.8
P/B (x)	1.9	2.2	2.2	2.0
ROE (%)	10.0	17.4	16.7	17.2

Table 3.11 Basic Financial condition of **Dickson Concepts** in March every year.

3.12 Chinatrust Financial Holding (Bloomberg: 2891)

3.12.1 Company Briefs

Chinatrust Financial Holding is the biggest private owned bank in Taiwan. Over the past 2-3 years, Chinatrust FHC went through gradual power succession from Jeffery Koo Sr. to his eldest son, Jeffery Koo Jr. This change has reflected in changes in corporate strategy that has turned much more aggressive [2,4].

3.12.2 Investment Highlights

1. Chinatrust will be the few long term beneficiary in the Taiwan collapsed unsecured personal finance market.
2. Chinatrust remains well positioned to see earnings rebound as provision charge in 2H06 [2,4].

3.12.3 Financial Highlights

Year	12/04A	12/05A	12/06E	12/073
Net profit (NT\$ mn)	14,774	15,508	5,943	20,052
EPS (NT\$)	2.17	2.2	0.84	2.83
EPS growth (%)	93.4	1.6	(61.9)	237.4
P/E (x)	12.2	12.0	31.4	9.3
P/B (x)	2.0	1.8	1.7	1.5
ROE(%)	17.9	15.8	5.6	17.3

Table 3.12 Basic Financial condition of **Chinatrust Financial Holding** in December.

Chapter 4: Trading

4.1 Trading diary

The trading diary starts with a description of the trading method. First of all, \$10000 US dollars is spent on each stock and the limit order rule is set at -15% loss limit and +15% gain limit. Those limits are the warning signals for when to buy and sell or change the stocks. Second, evaluating period is set to be one week. During the week, the stock is sold if either the gain or loss limit is reached. At the end of each week, there is an evaluation of the stocks based on performance and trend line. The evaluation is use to judge whether the performance of each stock is well enough to stay in the portfolio.

	Exchange Rate	
	US dollar	Foreign currency
Hong Kong	1	7.761
South Korea	1	954.2
Malaysia	1	3.665
Thailand	1	383.9
Taiwan	1	32.33

Table 4.1 Exchange Rate

Portfolio stocks	Opening price	Shares can be bought by \$10000US dollars
China Medical Technologies Inc (US\$)	\$22.63	442
Tencent Holdings Ltd (HK)	\$17.85 HK	43479
Jardine Matheson Holdings Ltd (US\$)	\$18.4	544
Jardine Strategic Holdings Ltd (US\$)	\$10.8	926
Esprit Holdings Ltd (HK)	\$60.15 HK	1290
First Pacific Co (HK)	\$3.175 HK	24441
Hite Brewery Co Ltd (KOU)	\$103000 KOU	926
Tenaga Nasional Bhd (MYR)	\$9.15 MYR	40054
UEM Builders Bhd (MYR)	\$1.21 MYR	302892
Asian Property Development PCL (THB)	\$3.26 THB	11776073
Dickson Concepts (HK)	\$8.05 HK	8151
Chiantrust Holding Company (NTD)	\$26.05 NT	10472

Table 4.2 Company Shares Index

China Medical Technologies Inc

In the first week (May-25th -2006 to June-1st -2006), the stock had a magnificent jump from 22.63 US\$ dollars per share to 25.7 US\$ dollars per share. The highest growth rate was on June-1st (13.57%).

In the second week (June-2nd -2006 to June-8th -2006), a disaster in the global equity market occurred, and it made the stock price going from the highest point US\$ 25.7 to US\$ 22.76. The growth rate of this week was -11.44% but overall it is still above the opening price.

In the third week (June-9th to June-15th), the stock continues the downward trend until June 14th. The stock rose immediately, and the total growth rate became to 7.82%. It seems the stock has potential to reach the limit gain point.

In the fourth week, (June-16th to June-22nd) the stock had an enormous change. The stock price dropped down from US\$ 24.4 to US\$ 20.03. The change of the growth rate this week was -17.9%, and the total growth rate changed from 7.82% to -10.3%. If a stock price changed a lot in a short period, this company might have some financial or operating problems. Once the stock price passes over the loss limit next week, it will be sold.

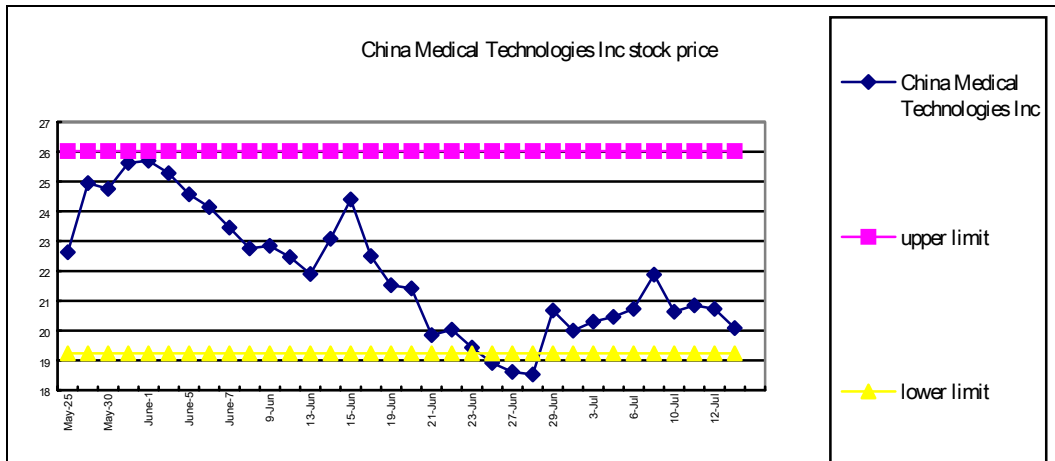


Fig. 4.1 China Medical Technologies Inc stock price

Tencent Holding Ltd.

During the eight weeks investment period, Tencent Holding Ltd stock follows a downward trend. At eighth week, it passes the loss limit.

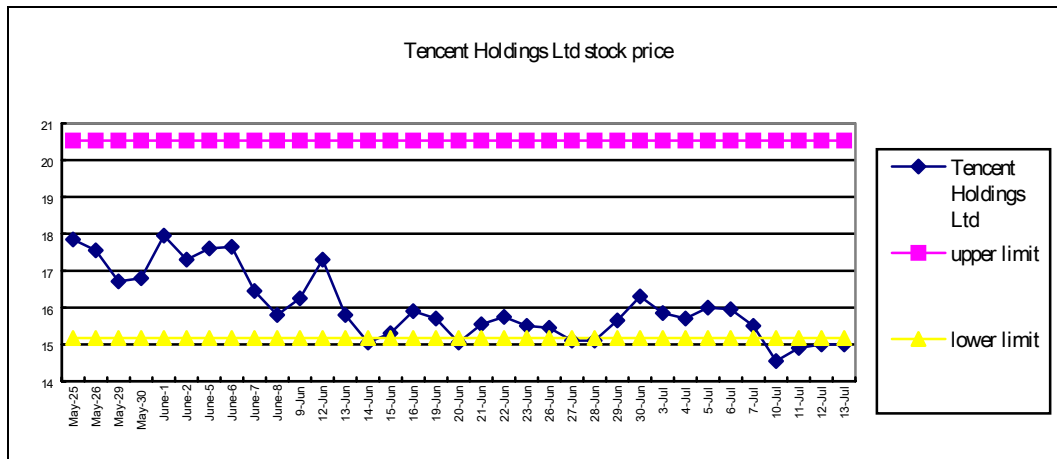


Fig. 4.2 Tencent Holdings Ltd stock price

Jardine Matheson Holdings Ltd

In the first week, (May-25th-2006 to June-1st-2006) the stock went up almost \$1 HK, and the growth rate was 4.34%. If the next few weeks were following the trend like this week, it will be a very profitable stock.

From the third and the fourth week, (June-9th-2006 to June-22nd-2006) the stock price did not really change a lot; it stayed around the range of \$17.5 HK and \$17.3 HK. The total growth rate was -5.98%.

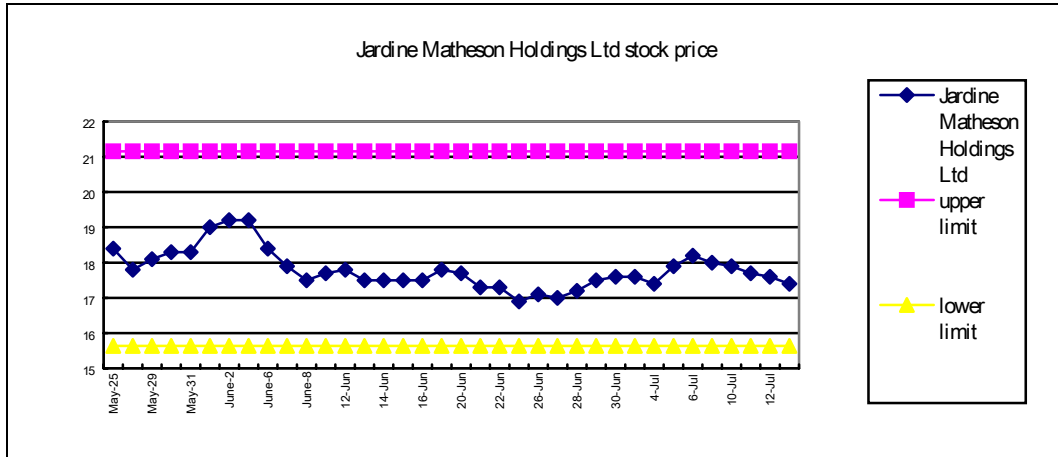


Fig 4.3 Jardine Matheson Holdings Ltd stock price

Jardine Strategic Holding Ltd.

In the first week, the growth of the stock is very positive. During the second week, the stocks went over the opening price. After the fourth week, the stock went up in a steady trend.

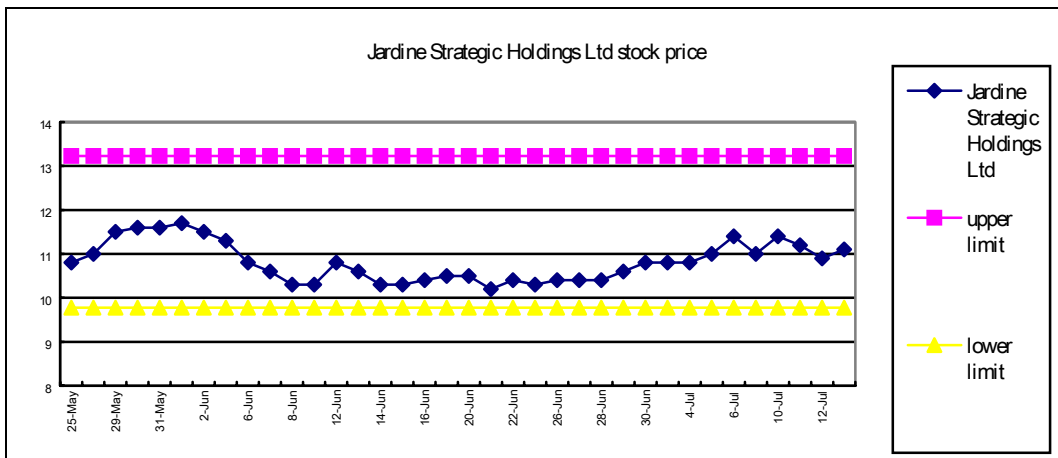


Fig. 4.4 Jardine Strategic Holdings Ltd stock price

Esprit Holdings Ltd

In the third week (June-9th-2006 to June-15th-2006), the stock price went down from 59.85 HK dollars to 56.4 HK dollars. The growth rate of this week became to -5.76%.

In the fourth week, (June-16th to June-22nd) the stock has grown 2.1 HK dollars, and the growth rate rose up to -2.66%. The stock price is estimated to hold for a while and then go up.

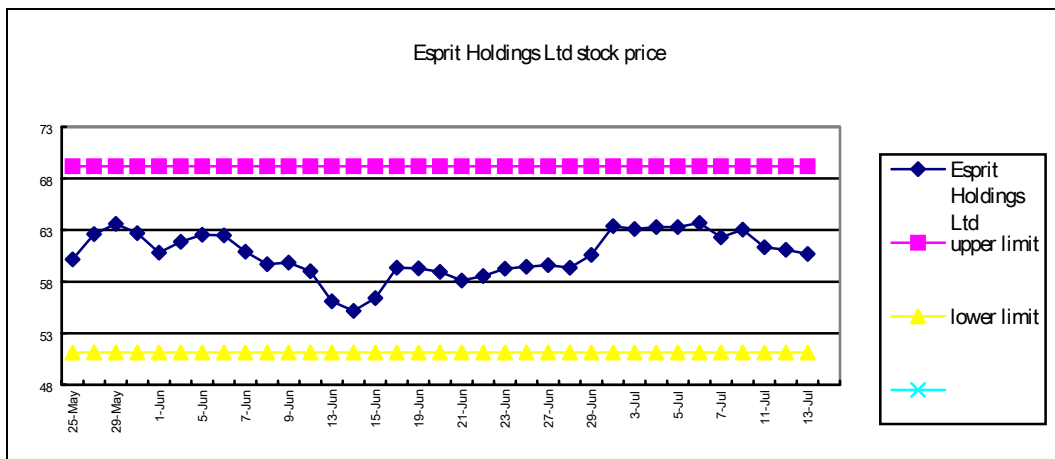


Fig. 4.5 Esprit Holdings Ltd stock price

First Pacific Co

In the first week (May-25th-2006 to June-1st-2006), the stock did not change a lot; the closing price of the week only grew 2.36%.

On the last day of the second week (June-2nd-2006 to June-8th-2006), comparing the

stock prices on June 7th and June 8th, only in one day, the growth rate has dropped down by 6.92%. The total growth rate became to -4.73%.

In the third week (June-9th-2006 to June-15th-2006), the stock price only changed a little bit. So basically we could ignore the difference.

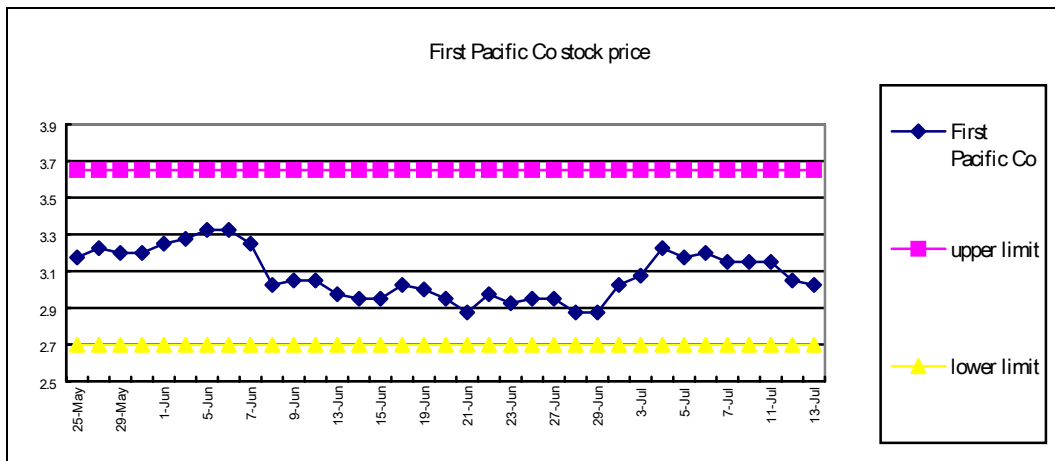


Fig. 4.6 First Pacific Co stock price

Hite Brewery Co Ltd

In the second week (June-2nd-2006 to June-8th-2006), the stock did not have a very obvious change the growth rate. It is in the range of 5%.

In the third week (June-9th-2006 to June-15th-2006), the growth rate of this week (-3.88%) became much better than last week (9.42%). It has grown about 5%. By following the appearance, the stock is estimate to have a numerous growth in the following weeks.

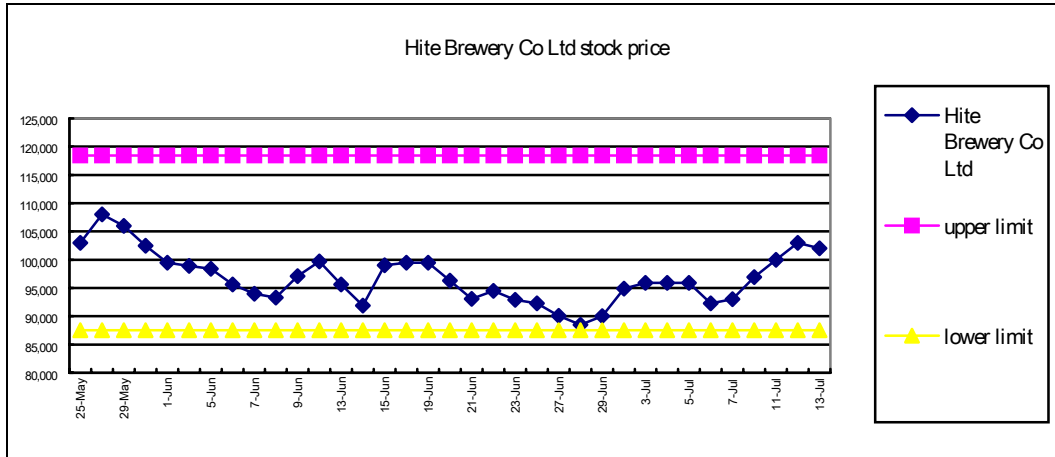


Fig 4.7 Hite Brewery Co Ltd stock price

Tenaga Nasional Bhd

In the passed three weeks (May-25th-2006 to June-15th), the stock price did not differentiate a lot. But on the last day, it went down about 2.7%. The total growth rate so far became to -2.19%.

In the forth week (June-16th to June-22nd), the stock has a steady trend, and the closing price of the week was the same as the starting price from the first week. According to this phenomenon, this stock is estimate to have a small loss or gain.

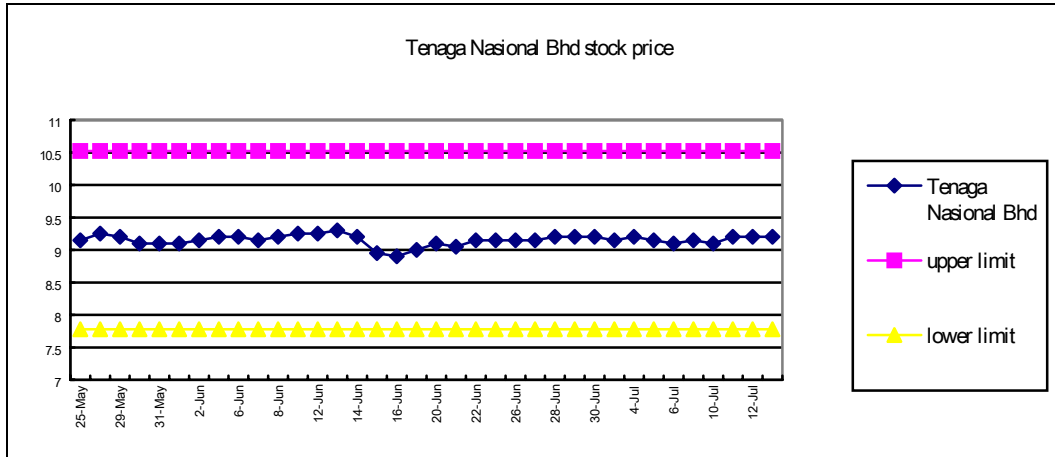


Fig. 4.8 Tenaga Nasional Bhd stock price

UEM Builders Bhd

In the first week (May-25th-2006 to June-1st-2006), the stock was doing fine. The highest price per share was 1.29 US dollars on May 31st, and the growth rate was 6.6%. However, at the end of the week the closing price was 1.17 US dollars. The growth rate became -3.3%, this is still within the limits.

At the end of the second week (June-2nd-2006 to June-8th-2006), the stock should be sold since the price went pass the loss limit. Unfortunately no action was taken. It was really hard to make a decision at that point due to personal emotions. A personal forecast a growth in next day that is the reason the stock was hold.

In the third week (June-9th to June-15th), the price did not turn out as forecasted. Therefore, the stock was sold on June 9th with price per share was 1.04 MYR dollars.

The lack confident on stock of UEM Builders caused a selection of a new stock.

However, the stock was bought back on June-16th. According to observation, the stock has rise very stably since June-13th. At the end of the forth week, the stock price reached \$1.16, and the growth rate were up to 22.1% during June-13th to June-22nd. The stock might has chance to grow above the starting price in the following weeks. The money from selling the UEM stock was again use for its purchase.

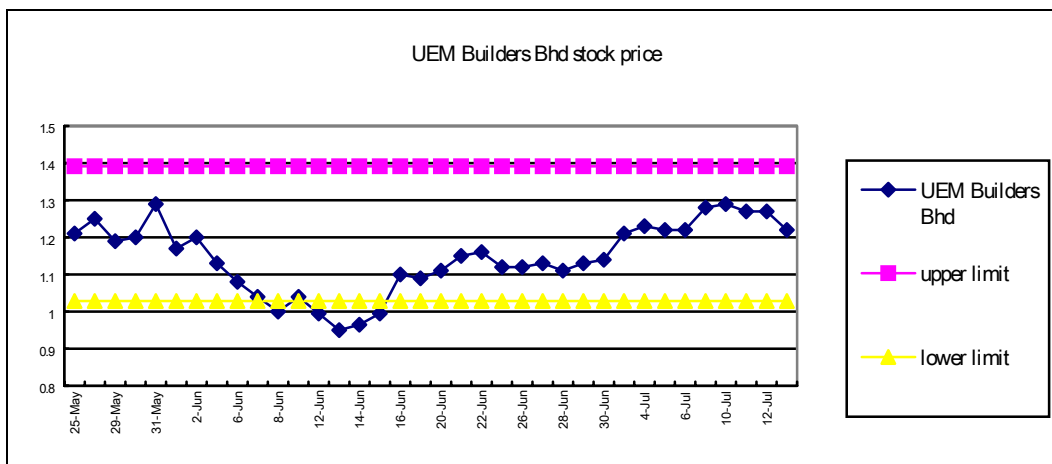


Fig 4.9 UEM Builders Bhd stock price

Asian Property Development PCL

In the first week (May-25th-2006 to June-1st-2006), the stock trend was doing fine. It moved between the upper and lower limit. The highest growth rate once reached 5.52%.

In the second week (June-2nd-2006 to June-8th-2006), the highest price appeared on

the first day of the week (3.4 US dollars per share). Unfortunately, the stock price has dropped down since the first day. The growth rate went 4.3% to -6.75%, a 10% change in this week.

On the last day of the third week (June-9th to June-15th), Asian Property Development has dropped over the loss limit (-17.1779%). The stock was immediately sold.

In the fourth week (June-16th to June-22nd), the growth rate of the stock were -21.47%. It proved that the loss/gain limit strategy does prevent further losses. The money (\$8282 US dollar) from selling the stock was not reinvested right away. Trends in the market are studied before taking the next step.

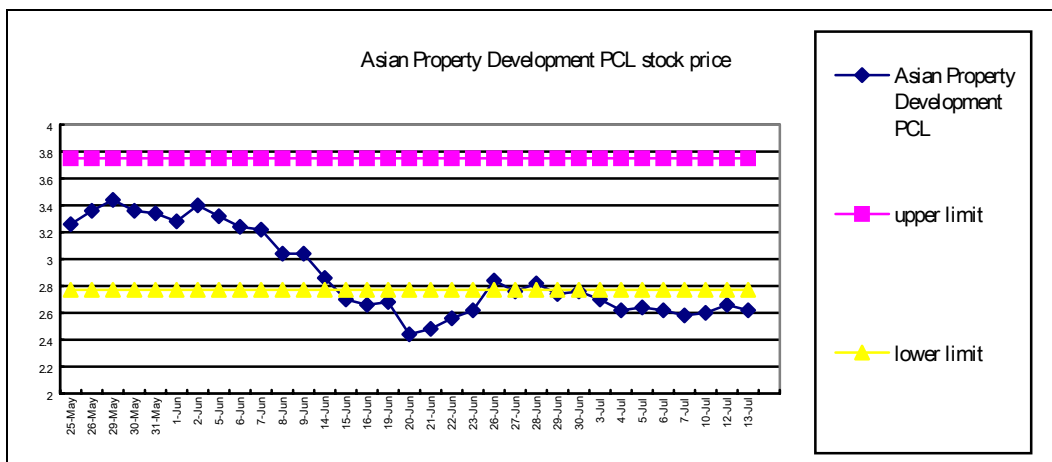


Fig. 4.10 Asian Property Development PCL stock price

Dickson Concept

In the first week (June-23rd to June-29th), the stock did not move a lot. The growth rate of this week is 0%. Hopefully next week the stock will have an outstanding performance.

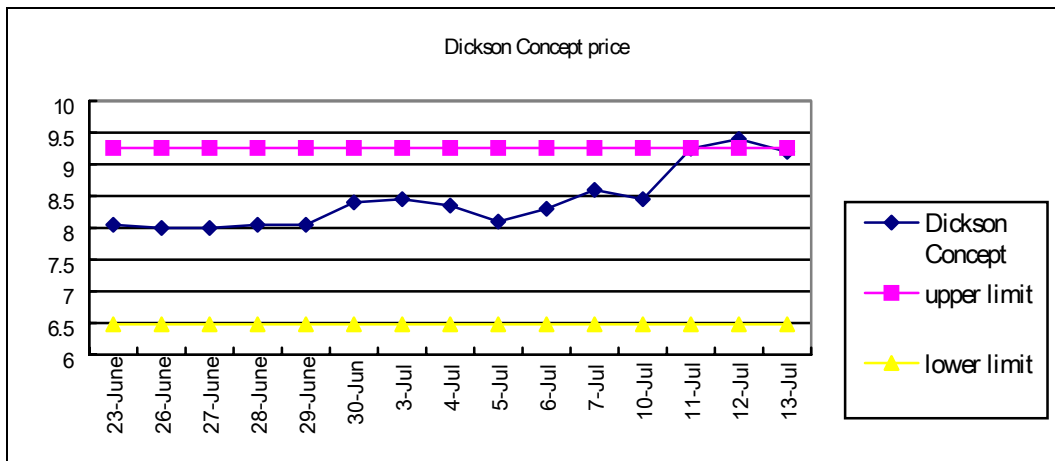


Fig. 4.11 Dickson Concept price

Chinatrust Financial holding Company

In the first week (June-23rd to June-29th), the stock maintained the price of \$26 NT dollars, and the growth rate was -0.19% .

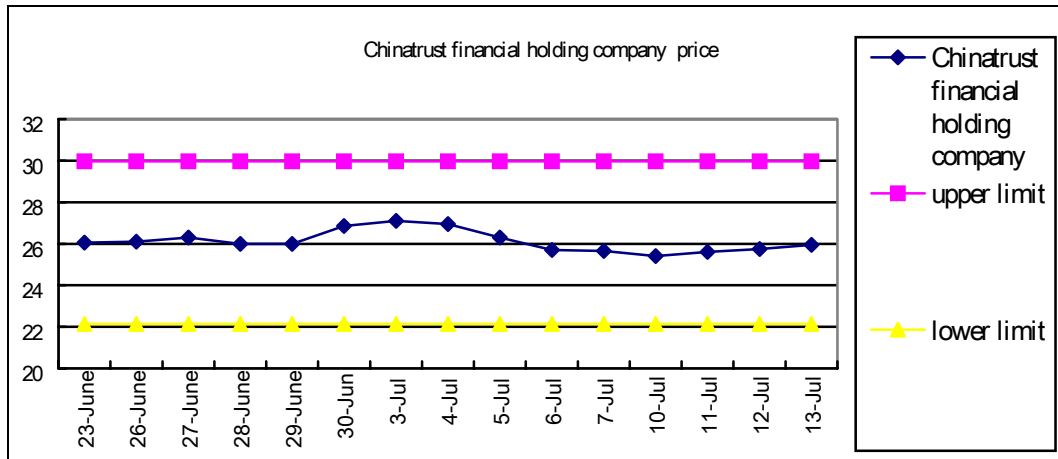


Fig. 4.12 Chinatrust financial holding company price

Trading Results

Company	Total gain or loss %	Money of each stock (US dollar)
China Medical Technologies	-11.27	8873
Tencent Holdings Ltd	-18.49	8151
Jardine Matheson Holdings Ltd	-5.4	9460
Jardine Strategic Holdings Ltd	2.7	10270
Tenaga Nasional Bhd	0.55	10055
UEM Builders Bhd	-15%	Transfer to Dickson
Esprit Holdings Ltd	0.91	10091
First Pacific Co	-4.72	9528
Hite Brewery Co Ltd	-0.97	9903
Asian Property Development PCL	-15%	Transfer to Chinatrust
Dickson Concepts	16.77	9853
Chinatrust Holding Company	-0.38	8406
Total		94590

Table 4.14 Total gain or loss %

4.2 Trading results

In the first week (May-25th-2006 to June-1st-2006), most of the selected stocks have been grown stably (average growth 15%). Only three of them have slightly curved down. Those depreciated shares still have potentials to rise again in the following weeks. Therefore, none of the stock was sold.

In the second week (June-2nd-2006 to June-8th-2006), a disaster in the global equity market occurred. This led to the downward movement on all the selected stocks. This might be ascribed to the rising oil prices, relatively weak US dollars, the surging import

index and the potential inflation possibility. This phenomenon has made the US S&P500 index kept falling from the climax of the past five years. The global equity markets are always following the US market, therefore the loss appeared in the US market. These Asian emerging stocks are inevitably avoided.

In the third week(June-9th to June-15th), only China Medical Technologies Inc has grown to 7.82% and the rest of the stocks are in a gloomy atmosphere. Especially the stock of Asian Property Development and UEM Builders Bhd both drop over the loss limit and Tencent Holdings Ltd is on the edge of it. More attentions are put on these three companies and make a precise observation to determine the next step for the following week. Those two stocks that are below the lower limit will be changed to others. Early in the week the US market tanked on fears over inflation, on Wednesday when the inflation news did in fact turn out to be worse than expected, the market rallied. This might be the main reason why Asia emerging stocks are going down radically.

In the forth week, (June-16th to June-22nd) most of the selected stocks have grown a little bit (around 3%) except China Medical Technologies Inc and Asian Property Development PCL. The growth rate of China Medical Technologies was 17%, and the total growth rate became to -10.3%. There must be some problems in the company. Usually a stock will not dropped down that much in a week. Since the second week the

stock of Asian Property Development is still going down. The total growth rate is over -21.4%. Fortunately the stock was sold when it pass the loss limit. The stock of UEM Builders rose by 13% from last week, and the total growth rate changed from -17.3% to -4.13%. Sadly, the stock was sold when it pass the loss limit. There is the cash (\$16877.04 US) from selling the stocks of UEM Builder and Asian Property Development that will be further used for stocks in low point with high potentials.

In the fifth week (June-23rd to June-29th), most of the selected stocks did not have a big change except Hite Brewery Co Ltd. 's. The growth rate went down 4.5%. Two new stocks, Chinatrust Holding Company from Taiwan (R.O.C) and Dickson Concepts from Hong Kong, were added to the portfolio. The stock was chosen based on looking back of both history indexes. Both of them have the same symptom that the trend was in low point and also have strong momentum to grow enormously in two weeks. Each stock is invested with 8438 US dollars, and the money was from selling UEM Builders and Asian Property Development. US Fed did raise the interest as expected, and intentionally said that the inflation was already under control. US Fed has raised the interest for two years long. Finally the tone of rising interest may be stopped here for a while. According to these facts above, the global stock market will start going up deliberately. That is why most of the selected stocks had positive growth rate this week.

In the sixth week (June 30th to July sixth), all the stocks in the portfolio have great moves except Chinatruck Holding Company from Taiwan. The growth rate of this company went down about 3%. The main reason caused this incident was the missile test in North Korean. United States wants China to use its influence to pressure North Korea to end its missile tests and return to six-party disarmament talks. Taiwan stock market always moves with global events like Korean missile test. The average growth rate of the selected stocks this week is 2.3%. If this trend continues, there would be magnificent profits in next two weeks.

Chapter 5: Analysis

5.1 Fundamental analysis

Fundamental analysis is a security or stock valuation method that uses financial and economic analysis to evaluate businesses or to predict the movement of security prices such as stock prices or bond prices. The fundamental information that is analyzed can include a company's financial reports, and non financial information such as estimates of the growth of demand for competing products, industry comparisons, analysis of the effects of new regulations or demographic changes, and economy-wide changes. It is commonly contrasted with so called technical analysis which analyzes security price movements without reference to factors outside of the market itself.

A current investor uses fundamental analysis to examine a company's financial results, its operations and the markets in which the company is competing to understand the stability and growth potential of that company. Company factors to consider might include dividends paid, the way a company manages its cash, the amount of debt a company has, and the growth of a company's revenues, expenses and earnings. A fundamental analyst may enter long or short positions based on the result of fundamental analysis.

In large organizations fundamental analysis is usually performed in three steps:

First, analysis of the macroeconomic situation, usually including both international and national economic indicators, such as GDP growth rate, inflation, interest rates, exchange rates, productivity, and energy prices.

Second, industry analysis is including of total sales, price levels, the effects of competing products, foreign competition, and entry or exit from the industry.

Lastly, individual firm analysis is including of unit sales, prices, new products, earnings, and the possibilities of new debt or equity issues.

5.2 Reason for loses

The following is the brief status description based on fundamental analysis on the portfolio. A short-term investment does not highly relate to a long-term analysis such as GDP growth rates, inflation and etc. Therefore, the news of stock market and its impact are more influential. The US stock market is facing a down turn situation during the short period of the investment. In order to have a stable return, the higher percentage of defensive stocks were select compare to speculative stocks. A defensive stock is the kind of stock that would not have enormous moves and it is more stable in returns. A speculative stock is the kind of stock fluctuates and can be easily influenced by changes in global stock market. The following are reason of loses for the portfolio.

(1) Speculative Stocks

China Medical Technologies Inc

China Medical Technologies Inc is one of the speculative stocks, and it incurs a loss about 1200 US dollars. This stock did have a huge change in the seven weeks trading. In the first week (May-25th-2006 to June-1st-2006), this stock even went close to gain limit, but the following three weeks it went pass the loss limit. Since it is a speculative stock, the global stock disaster causes this stock went down dramatically.

Asian Property Development PCL

Asian Property Development PCL is also a speculative stock from Thailand. The mortgage rate of Thailand was going down recently, but this company had really nice background and potential. Expectation on this stock for the portfolio is to have a positive return on this stock, but it turn out the other way around. This stock dropped over the loss limit and was immediately sold. There is a loss of 2000 US on this stock.

UEM

The company UEM ends with a negative 1500 in investment. This stock is a representative work of speculative; it had a very volatile movement during seven weeks. From the chart that the stock price was very high in the first week, but the drop pass the loss limit in second and third weeks. In the forth, fifth, and sixth week, the price went up and almost reaching the upper limit. Unfortunately the stock was sold when it went pass the loss limit else the loss incurs on this stock would not be this significant.

Tencent Holdings Ltd

The greatest loss among all the stock in the portfolio is Tencent Holdings Ltd, which is a loss of 2000US. The company has really good standing from the fundamental analysis, but this industry in china is not mature. It has good potential but not on the right trend at this moment. This kind of stocks is more suitable for long term trading.

(2) Defensive Stocks

Hite Brewery Co Ltd

Hite Brewery Co Ltd is a beer company from Korea. Expectation on this stock was very high because during the investment period two fact favors the company. The facts are it is the season for beer and Korea is playing in the World Cup. Koreans should crazily drink lots of beers in the short period of time, but unfortunately the thing did not turn out as expected. The growth rate of the stock was -13% for the first six weeks. In the seventh week, the stock turns around. The growth rate went up 12% in a week. At the end the stock only loses of 100US. If the investment continues thru eighth or ninth week, this stock will turn out to be profitable.

Jardine Matheson and Strategic Holdings Ltd

Jardine Matheson and Strategic Holdings Ltd are investment companies, and they involved in many industries. These are defensive stocks, and they would not have a big alteration in a short period. The combine the result of these two companies is close to zero. That is reason those stock were selected to be investment base.

5.3 Reason for gains

Defensive Stocks

Dickson Concepts and Esprit Holdings Ltd

Dickson Concepts and Esprit Holdings Ltd are two Hong Kong consumer retail companies. Usually these kinds of stocks do not follow the trend of Nasdaq or Japan stock index. US market was in down turn during the period of investment, so these two

companies were pick as defensive stock options. At the end, Dickson stock gains 1500 US dollars and Esprit Holdings stock gains 100 US dollars.

Tenaga Nasional Bhd

Tenaga Nasional Bhd is an electric company from Malaysia. Even the fundamental parts of the country dose not do well, but its industry is stable. Therefore, the price of the stock did not move dramatically. At the end of the investment, 50 US dollars is earn from Tenaga stock.

5.4 What if – considering different trading strategy and scenarios

The method of gain and loss limit was used to aid in the control of the portfolio. In this section, different trading guidelines are use to simulate and trace back the stocks performance. Each scenario will be discuss in detail and compare to loss/gain limit approach. Each scenario starts with the same amount of money and invest 10000US in 10 selected stocks.

5.4.1 Selling at 15% loss/ gain limits approach

This method was used for the portfolio in this period of time (May 25-July 13). The average lose for each stock is 3.5% for this eight weeks period. Comparing with Dow Jones Stock Index, NASDAQ Index, MSCI ex Japan Index, the stock performance using loss/limits approach is better than NASDAQ (-6.6%), is closing on DJ (-3.3%), and is lagging behind MSCI ex Japan (-1.0%).

Three most miserable stocks are China Medical (-16.4%), Tencent (-15.7%), and Asian property (-17.2%) , which are the speculative stocks.

Portfolio stock	Trading Period	Currency	Opening Price	Selling at Up/Down 15%	Gain/Loss
China Medical	May 25 -- July 13	US\$	22.63	18.91	-16.4%
Tencent	May 25 -- July 13	HK\$	17.85	15.05	-15.7%
Jardine Matheson	May 25 -- July 13	US\$	18.4	17.7	-3.8%
Jardine Strategic	May 25 -- July 13	US\$	10.8	11.2	3.7%
Esprit	May 25 -- July 13	HK\$	60.15	61.1	1.6%
First Pacific	May 25 -- July 13	HK\$	3.175	3.05	-3.9%
Hite Brewery	May 25 -- July 19	KOU\$	103000	103000	0.0%
Tenaga	May 25 -- July 20	MYR	9.15	9.2	0.5%
UEM Builders	May 25 -- June 22	MYR	1.21	1.15	-5.0%
Asian property	May 25 -- June 22	THB	3.26	2.7	-17.2%
Dickson	June 23 -- July 13	HK\$	8.05	9.25	14.9%
Chinatrust	June 23 -- July 13	NT\$	26.05	25.75	-1.2%
Average					-3.5%
Comparison					
Dow Jones index	May 25 -- July 13		11211.05	10846.29	-3.3%
NASDAQ	May 25 -- July 13		2198.24	2054.11	-6.6%
Morgan Stanley ex Japan	May 25 -- July 13		370.65	366.76	-1.0%

Table 5.4.1 Selling at 15% loss/gain limits approach

5.4.2 Buy and hold strategy

Buy and hold strategy is a strategy that holds on the selected stocks thru out the investment period. Buy and hold strategy performs worse than loss/gain limit approach. The substitution of the stock in loss/gain approach has improved the performance of the portfolio.

Portfolio stock	Trading Period	Currency	Opening Price	Closing Price	Gain/Loss
China Medical	May 25 -- July 13	US\$	22.63	20.08	-11.3%
Tencent	May 25 -- July 13	HK\$	17.85	15	-16.0%
Jardine Matheson	May 25 -- July 13	US\$	18.4	17.7	-3.8%
Jardine Strategic	May 25 -- July 13	US\$	10.8	11.2	3.7%
Esprit	May 25 -- July 13	HK\$	60.15	61.1	1.6%
First Pacific	May 25 -- July 13	HK\$	3.175	3.05	-3.9%
Hite Brewery	May 25 -- July 19	KOU\$	103000	103000	0.0%
Tenaga	May 25 -- July 20	MYR	9.15	9.2	0.5%
UEM Builders	May 25 -- June 22	MYR	1.21	1.27	5.0%
Asian property	May 25 -- June 22	THB	3.26	2.62	-19.6%
Average					-4.4%
Comparision					
Dow Jones index	May 25 -- July 13		11211.05	10846.3	-3.3%
NASDAQ	May 25 -- July 13		2198.24	2054.11	-6.6%
MSCI ex Japan	May 25 -- July 13		370.65	366.76	-1.0%

Table 5.4.2 Buy and Hold Scenario

5.4.3 Cutting loss when the price is lower than cost or first peak 5%.

Considering this is a short-term investment and the stock average standard deviation is 5.2%. The cutting point is then set at 5%. This method gives really good result (+0.2%), which is out performing DJ (-4.5%), NASDAQ (-5.7%) and MSCL ex Japan (-6.3%). That is because these stocks have good fundamentals. When the market rebound, these stocks have its heyday. This is like option. Stock option has more chance to win than index option when the stock is more volatile than the market.

Portfolio stock	Currency	Opening Price	High	Low	Average	Standard Deviation	
						Amount	%
China Medical	US\$	22.63	25.704	18.53	21.93	2.08	9.5%
Tencent	HK\$	17.85	17.95	14.55	16.05	0.98	6.1%
Jardine Matheson	US\$	18.4	19.2	16.9	17.81	0.56	3.1%
Jardine Strategic	US\$	10.8	11.7	10.2	10.81	0.45	4.2%
Esprit	HK\$	60.15	63.6	55.15	60.62	2.23	3.7%
First Pacific	HK\$	3.175	3.325	2.875	3.08	0.13	4.2%
Hite Brewery	KOU\$	103000	108000	88500	96676	4578	4.7%
Tenaga	MYR	9.15	9.3	8.9	9.15	0.08	0.9%
UEM Builders	MYR	1.21	1.29	0.95	1.14	0.09	7.9%
Asian property	THB	3.26	3.44	2.44	2.88	0.32	11.1%
Dickson	HK\$	8.05	9.4	8	8.39	0.44	5.2%
Chinatrust	NT\$	26.05	27.1	25.4	26.13	0.51	2.0%
Average							5.2%
Comparsion							
Dow Jones Index		11211.05	11278.61	10706.14	11044.15	140.70	1.3%
Nasdaq		2198.24	2054.11	2219.86	2141.01	41.52	1.9%
MSCI ex Japan		370.65	377.34	339.63	361.89	11.19	3.1%

Table 5.4.3 Fact sheet of stock price movements

Portfolio stock	Trading Period	Currency	Opening Price	Cut Loss at -5% from the Highest or Cost	Gain/Loss
China Medical	May 25 -- July 13	US\$	22.63	24.5716	8.6%
Tencent	May 25 -- July 13	HK\$	17.85	16.71	-6.4%
Jardine Matheson	May 25 -- July 13	US\$	18.4	17.3	-6.0%
Jardine Strategic	May 25 -- July 13	US\$	10.8	10.8	0.0%
Esprit	May 25 -- July 13	HK\$	60.15	59.7	-0.7%
First Pacific	May 25 -- July 13	HK\$	3.175	3.025	-4.7%
Hite Brewery	May 25 -- July 19	KOUS\$	103000	102500	-0.5%
Tenaga	May 25 -- July 20	MYR	9.15	9.2	0.5%
UEM Builders	May 25 -- June 22	MYR	1.21	1.17	-3.3%
Asian property	May 25 -- June 22	THB	3.26	3.24	-0.6%
Dickson	June 23 -- July 13	HK\$	8.05	9.4	16.8%
Chinatrust	June 23 -- July 13	NT\$	26.05	25.7	-1.3%
Average					0.2%
Comparision					
Dow Jones index	May 25 -- July 13		11211.05	10706.14	-4.5%
NASDAQ	May 25 -- July 13		2198.24	2072.49	-5.7%
MSCI ex Japan	May 25 -- July 13		370.65	347.13	-6.3%

Table 5.4.4 Cutting loss when the share prices lower than cost or the peak 5%

5.4.3 Best case scenario -- all stocks selling at their peak/ Worst case scenario -- all stocks selling at their lowest

The best-case scenario result 6.4%, which is better than DJ (0.6%), NASDAQ (1.0%) and MSCI ex Japan (1.8%).

The worst case scenario results -11.2%, which is worse than DJ (-4.5%), NASDAQ (-6.6%) and MSCI ex Japan (-8.4%)

From the best/worst cases scenario, the market seems in the downward trend during the period of investment. Any investment during this period has higher risk of losing. Cash holding strategy may be the best strategy to use in the period.

Portfolio stock	Trading Period	Currency	Opening Price	Selling at Highest	Gain/Loss
China Medical	May 25 -- July 13	US\$	22.63	25.704	13.6%
Tencent	May 25 -- July 13	HK\$	17.85	17.95	0.6%
Jardine Matheson	May 25 -- July 13	US\$	18.4	19.2	4.3%
Jardine Strategic	May 25 -- July 13	US\$	10.8	11.7	8.3%
Esprit	May 25 -- July 13	HK\$	60.15	63.6	5.7%
First Pacific	May 25 -- July 13	HK\$	3.175	3.325	4.7%
Hite Brewery	May 25 -- July 19	KOU\$	103000	108000	4.9%
Tenaga	May 25 -- July 20	MYR	9.15	9.3	1.6%
UEM Builders	May 25 -- June 22	MYR	1.21	1.29	6.6%
Asian property	May 25 -- June 22	THB	3.26	3.44	5.5%
Dickson	June 23 -- July 13	HK\$	8.05	9.4	16.8%
Chinatrust	June 23 -- July 13	NT\$	26.05	27.1	4.0%
Average					6.4%
Comparision					
Dow Jones index	May 25 -- July 13		11211.05	11278.6	0.6%
NASDAQ	May 25 -- July 13		2198.24	2219.86	1.0%
Mrorgan Stanley ex Japan	May 25 -- July 13		370.65	377.34	1.8%

Table 5.4.5 Best-case scenario: selling at the highest prices.

Portfolio stock	Trading Period	Currency	Opening Price	Selling at Lowest	Gain/Loss
China Medical	May 25 -- July 13	US\$	22.63	18.53	-18.1%
Tencent	May 25 -- July 13	HK\$	17.85	14.55	-18.5%
Jardine Matheson	May 25 -- July 13	US\$	18.4	16.9	-8.2%
Jardine Strategic	May 25 -- July 13	US\$	10.8	10.2	-5.6%
Esprit	May 25 -- July 13	HK\$	60.15	55.15	-8.3%
First Pacific	May 25 -- July 13	HK\$	3.175	2.875	-9.4%
Hite Brewery	May 25 -- July 19	KOU\$	103000	88500	-14.1%
Tenaga	May 25 -- July 20	MYR	9.15	8.9	-2.7%
UEM Builders	May 25 -- June 22	MYR	1.21	0.95	-21.5%
Asian property	May 25 -- June 22	THB	3.26	2.44	-25.2%
Dickson	June 23 -- July 13	HK\$	8.05	8	-0.6%
Chinatrust	June 23 -- July 13	NT\$	26.05	25.4	-2.5%
Average					-11.2%
Comparision					
Dow Jones index	May 25 -- July 13		11211.05	10706.1	-4.5%
NASDAQ	May 25 -- July 13		2198.24	2054.11	-6.6%
MSCI ex Japan	May 25 -- July 13		370.65	339.63	-8.4%

Table 5.4.6 Worst-case scenario: selling at the lowest prices.

Adding standard deviation concept on the analysis, the indexes have lower standard deviations compare to the portfolio. This implies that the stock index is less volatile than the portfolio. But when the market is in the downturn, an investment in index may not turn our better than selecting in more volatile stocks.

	Standard deviation	Lowest	Number of st.dv.	Highest	Number of st. dv.
Stock Average	5.20%	-11.20%	2.15	6.40%	1.23
DJ	1.30%	-4.50%	3.46	0.60%	0.46
NASDAQ	1.90%	-6.60%	3.47	1.00%	0.52
MSCI ex Japan	3.10%	-8.40%	2.71	1.80%	0.58

Table 5.4.7 Summary

Chapter 6: Conclusion

Any action should be taken before a well consideration of needs and wants. Setting a good investment objective is the most important factor for a stock simulation. In the case of a twenty-year-old man, a stock with higher risk and higher return is being selected to the portfolio. Capital appreciation and Total Return is set to be the objective of the portfolio. Beside the objective, a strategy should be selected. There are active, passive, and hybrid strategies. For the portfolio, an active strategy is being used. Two things needed to pay special attention are security selection and market timing for an active strategy. This is much also more suitable for a new investment entrant who is weak in background knowledge and has limited time.

After analyzing all the personal factors that may influence the whole project decision and finally decided the investment objective and strategies, the next stage is to choose the specific countries and stocks that may benefit the most. Overall, five countries were selected and ten companies were picked in different industries from these countries. The common point of these countries and companies are low P/E and P/B ratios and high growth rate. After the 8-week stock simulation, a loss of 5000 US incurred. Although the investment did not turn out to be profitable, many lessons were learnt during the process. In this project, the biggest mistake was to setting gain/loss limit too high.

The range of 15% might be suitable for a 1-year investment action but not for an 8-week one, because while the stock goes down, there is not enough time waiting for it to bound up again. Therefore, if the limit is set at 10% or only with partial fund in the market, the final result might have a better shape. However, this IQP meant to be done during a summer vacation off campus and due to the limited time, short term trading method was the only option that for the simulation.

Besides, in order to complete the project in a more efficient and correct way, I applied for an internship in Jih Sun financial holding Co in Taiwan. The internship experience equipped me with the ability to access the right information within a short time. The IQP allowed me to apply fresh knowledge that I have just learned to the real stock market. These two integrated precious experiences leveraged me from a technical background person who knows nothing about the finance to a person who now can at least composed a 70-page IQP project. This is absolutely by far the expectation that I set before I take this course. So, even though the final result was not so good, I still appreciate the whole thing.

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