

(A) Interest Rate and Share Movement (齒論原理)

With detailed charts of bank interest rate and stock market indices, increasing bank interest rate coincide with the share market going up; and decreasing bank interest rate coincide with the share market going down. This is contrary to what is expected by the public. The bank interest rate is set by the government regulator (e.g. Federal Reserve Board in the USA). The bank interest rate is increased in the face of expected inflation – and the share market goes up in times of inflation. Likewise, the bank interest rate is pushed down to fight deflation or recession, and the share market goes down with a recession. Judging from this, the Hong Kong Stock market is still a “bull market” because the bank interest rate is going up.

(B) SW Model (Spending Wave Model)

This gives an indication to assess the trend in house prices and stock market (捕捉股樓週期). The value of real estate (house value) depends on the size of the population (i.e. society need) and the way the real estate is put to use (earning potential). Thus, a piece of land is worth, e.g.

- for farming purposes or agricultural use = 1
- for living accommodation = 10
- for business purposes (financial offices or shopping arcade) = 100

Thus, the same piece of land may be worth different values (cost) depending on its use (location).

(C) House Price

The price of a house or apartment depends mainly on two factors:-

- (a) Median Family Income
- (b) Inflation

In the 1950's, the wages of a bank manager is around HK\$2,000.00 per month, and HK\$100,000.00 can buy a garden house in a good location such as Kadoorie Avenue. Now the wages have gone up and so has the price of a house. A bottle of Coca-Cola used to cost HK\$60 cents in the 1960's, now it costs HK\$8.00 or more – it is the same drink, but the price is different. Due to inflation, HK\$1.00 in 1918 is worth only HK\$4 cents in 2018. In other words, inflation pushes up wages and also the price of a house; deflation pushes down wages and also a price of a house. In our society, inflation is ever present, so the price of a house or apartment is bound to go up in the long run. The price of a house may go down in the next few months due to an increase in mortgage rate, but it will go up in the long run. An apartment that cost HK\$600,000.00 in 1977 is16 worth HK\$40,000,000.00 in 2018.

(D) Economic cycles

According to the charts shown by Mr. Adia Leung, the economic cycles in Hong Kong shows a regular pattern in the past 50 years, i.e. going up for 3-4 years followed by going down for 1 year.

If a person can utilize these economic cycles, he or she can double one's assets every 3-4 years. Thus the key to successful “Value Investment” is:-

- (i) Long term plan
- (ii) Repeat performance
- (iii) Safe investment

With this careful planning, a person can soon be a very rich person over 15-20 years.

### (E) Value vs Price

Going back to the example of land usage given above, the same lot of land is worth different prices when put to different uses, e.g.

- \$1.00 per ft. as farm land
- \$10.00 per ft. as housing use
- \$100.00 per ft. as factory use
- \$1,000.00 per ft. as commercial use

In the same way, when we look at a listed company, the price of the share (part ownership of the company) must reflect its value. When one looks at the Annual Report of a company, one must study its content (false report on inflated earnings), analyse the report (future potential) and then invest (buying its shares). Take the example of Tencent on the HK stock market:- (looking back five or more years)

#### Tencent Share

	2013	2014	2015	2016	2017	2018	2019
Earning per share (HK\$)	2.14	3.25	3.82	5.12	8.77	9.55	11.94
High Price	100.4	134.9	171	220.8	439.6	473	501
Low Price	47.4	93	111. 3	132.1	188	<265	<346
High PE	47	41	45	43	50	49	42
Low PE	22	28	29	26	21	29	29

Thus when the price goes below \$250/share, it is time to buy. If the price reaches \$500 as predicted, this makes it a 100% increase in asset. Thus a net increase of 30% per year for one's investment is not impossible.

Due to time constraint, there was no time for sharing or Q and A.