The stock market is getting back on its feet on the back of three major factors, says Dr Chan. “First of all, oil prices have regained 40% of their lost ground. Whether prices have bottomed out remains very much an uncertainty but the possibility of an oil rout is slim. This acts as support to the overall commodity market and investment climate.”

Rate hike on hold in second quarter

“In addition to this, the Fed is taking a more cautious attitude towards rate increases and this rings good news to asset prices, remarks Dr Chan, pointing out that Fed Chair Janet Yellen’s end-March statement implied a very prudent rate hike pace, which was interpreted apparently by the market as positive signals. “Some even predicted a single rate increase for this year at a date probably after the economic recovery of Europe and Japan later in the year. In other words, it looks like nobody has to face rate hike pressure in the second quarter,” he states.

On the back of these two major factors, the external markets have already woken up from nightmares of pessimism. Hong Kong stocks have followed the lead with a significant rebound. Dr Chan believes that many bearish folks were hit hard by getting caught in a short squeeze during the rebound. Compared with the stocks in mature markets such as the US, Dr Chan notes, Hong Kong stocks have one big positive signal to investors - cheap valuation.

“Hong Kong stocks are way too cheap. As such, the international capital outflow earlier will reverse its course one day. HSI constituents stocks, which tumbled sharply, have become such bargain buys. Stocks with strong fundamentals and sound management will prove their worth in the long run.”

Shift from bear to bull undetermined

Hong Kong stocks are cheap, for a fact. As at end-February, the HSI and HSCEI price-earnings (“P/E”) ratios dropped respectively to 7.9 times and a 5.8 times’ low. Since the stock market has been stagnant for quite a while, analysts have predicted that Hong Kong stocks will eventually see the silver lining, emerging from the third phase of a bear market into the first stage of the bull. Dr Chan points out however that
the shift from bear to bull is yet to be determined.

“Results of my study reveal insufficient signs of the bear-to-bull shift. Investors must remain cautious and had better wait for an adjustment before entering the market. For the short haul or even in the second quarter, investors might as well just go with the flow and stay optimistic.”

As regards investment strategies, Dr Chan says that some high-yield or utility stocks remain stable and winning choices in the ultra low interest rate environment.

“Even during the first-quarter market slump, many utility stocks in Hong Kong continued to hit record highs. Nowadays, everybody is seeking stable investments. Characterised by low debt-to-equity ratios, strong capital flows, stable business performance and dividend payouts, utility stocks may be worth considering.”

Dr Chan’s views are not as pessimistic as others’. He explains, “The price of local and mainland bank stocks already reflects the bulk of the negative factors. It is exactly the deep plunge in value that produces such high dividend yields. As far as dividend investments are concerned, mainland bank stocks will retain their attractiveness.”

Meanwhile, many high-yield stocks lose their shine as the market climbs. Should investors then swap horses and sell off those high-yield stocks for the capital gains, and put their money in growth stocks? Dr Chan emphasises that investors should base their investment decisions on a clear understanding of their own investment orientation and the desired stock. “The homework will give you sufficient confidence in that particular stock. So, it should be fine to swap horses.” He remarks however that high-yield stocks remain worthy investments that can be best buys at lower prices.

Dividend payout ratio indicative of Chinese banks’ investment worthiness

Aside from utility stocks, mainland bank stocks also set themselves apart as high-yielding investments. Despite this, they have suffered quite a blow from negative publicity about sliding profit plunge and soaring bad debts in recent years. How should investors navigate this particular sector?

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Property price plunge may ease construction costs

Into 2016, Hong Kong’s property market has finally experienced a reversal of fortune. The Centa-City Leading Index fell more than 13% from last October’s 146.9 high to 127.5 as at mid-March this year. Some developers even play a bearish note with further downward adjustment forecasts for the property market.

Such bearish views are not without grounds, Dr Chan stresses. “Persistent highs in property prices may not be good for developers. High prices keep buyers away, creating a lull in property transactions that will subsequently hamper property sales. Conversely, a downward adjustment may give the government pressure to cut land prices and in turn ease construction costs for developers. In particular, some of the big developers hold galore farmlands across the New Territories. Conversion of such farmlands into residential sites at a land premium would mean lower land prices, which are music to developers’ ears. Success in this regard will immediately send the value of that plot through the roof.”

The above information is quoted as of 13 April 2016.

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