Your Money

The Fry Group
Expert tax and financial planning since 1898
2526 9488
www.thefrygroup.co.uk

Paul Clitheroe is a best-selling author on managing money. Photo: SMP

It isn't rocket science but don't confuse saving with investing

MEET THE MANAGER
CHRIS DAVIS

Australia's leading media commentator on financial issues could easily afford to retire to his elegant Sydney home and luxury yacht.

But 49-year-old Paul Clitheroe, whose books on making money have sold more than 600,000 copies – a rare achievement for an Australian non-fiction author, carries on working, dispensing the same financial advice that he follows himself.

"Investing and, more importantly, making money is not as hard as most people might think," says Mr Clitheroe, chairman of *Australian Money* magazine, co-founder and director of financial advice firm ipac, syndicated newspaper columnist and radio commentator.

He says investors don't have to be rocket scientists to make money from investing. "To succeed they need to understand the investment facts and learn how to take control of their investments."

This is a discipline that many investors often overlook. For example, identifying the difference between saving and investing is a common cause of confusion. He says saving means putting money aside to cover short-term goals such as holidays. This money should be kept secure and accessible. However, in exchange for security returns are usually low.

Investing is about accumulating money over the long term to provide financial security. This has the potential to generate bigger rewards but may be exposed to the ups and downs of markets.

"It is amazing that in so many instances the better educated the investor or the more money they earn the more ridiculous their approach to investing or saving seems to be," Mr Clitheroe says. Frequently executives who are successful in their own businesses fail miserably when it comes to managing their own investments.

Often high-income earners do not have a long-term plan and invest the same amount or less than people on significantly lower incomes. They are also tempted to chase high returns because they consider the average is not enough. This often happens when they chase the "next best thing", choosing speculative investment options that are high risk, or get caught by investment scams.

Another failing is the temptation to time equity markets. Mr Clitheroe believes success depends on time in the market, with assets invested over a period.

The Australian government has appointed Mr Clitheroe as chairman of the Consumer and Financial Literacy Taskforce, which will set a national strategy to improve the financial skills of all Australians.

His no-hype approach to investing and wealth management focuses on getting rich slowly, although his personal wealth was given a hefty boost when AXA Asia Pacific paid A$205 million ($1.21 billion) (including $183 million to shareholders plus a $22 million capital injection into the company) for ipac in 2002.

He recommends investing in quality companies, such as those with a fundamental basis behind their prospective earnings. New companies that focus on a particular market segment such as health care could also be of interest, providing the investment does not create excessive risk in an overall portfolio.

"The key to investing is not to avoid risk but sensibly manage it"
Paul Clitheroe
Investment commentator

Quoting the old maxim that if the investment sounds too good to be true it probably is, Mr Clitheroe says an element of risk should always be considered. "The key to successful investing is not to avoid risk but sensibly manage risk. For example, diversifying investments across non-correlating investment tools such as cash, bonds, property and equities." The same diversification concept should apply within each investment sector.

As for the best stock-buying opportunities, Mr Clitheroe says from time to time there are episodes of genuine panic selling.

"When an over-priced company falls a lot, it is a correction," he said. "Panic is when sellers do not distinguish between good-quality companies and poor-quality companies but just want to get cash.

"Over the last 30 years there have been 15 to 20 days of genuine panic. These provide opportunities to buy a good-quality company at the same price as a bad company."

China market has a penetration rate of only 26 per cent, says **Andy Mantel**

Comba poised to profit from huge investment in mobiles

There can be few better examples of a growing market than China's mobile phone industry. With a mere 25.9 per cent penetration rate, the total subscriber base has already swollen to 354 million users – the world's largest market.

In the first four months of this year alone, those phones ran up 378 billion minutes in user time.

To support growth on this scale, China Mobile has budgeted 65 billion yuan for capital expenditure this year, while China Unicom plans to spend 18 billion yuan.

Who is going to benefit from the investment bonanza? My money is on Comba Telecom, which provides innovative technology to help operators build reliable network coverage at lower cost.

More specifically, its antennas, amplifiers and receivers enable operators to avoid building costly base stations.

Apart from China Mobile and China Unicom – its two major customers – Comba is expanding its international customer base with sales offices in Hong Kong, Singapore, Thailand and Sweden.

China's wireless equipment market can be categorised in three sectors. The core network equipment providers include Huawei Technologies and ZTE, who build base stations and make routers and switches. The consumer equipment providers including Nokia and Motorola produce mobile phones. In between is the wireless coverage equipment – and that is where Comba comes in.

Products such as amplifiers, antennas and receivers extend coverage in outdoor areas and eliminate blind spots indoors. Comba is China's leading coverage equipment vendor, with more than 25 per cent market share.

It is believed the Chinese government will issue three 3G licences by the end of this year or next year. The good news is that Comba has a product stream compatible with the three popular technology standards used in the new multimedia networks WCDMA, CDMA2000 and TD-SCDMA. Thanks to Comba, telecom operators will find it relatively easy to upgrade to 3G.

The company also diversified last year into the PHS market operated by China Telecom and China Netcom. Although PHS provides only limited mobile services, the development of some PHS products has helped Comba to establish relationships with those fixed-line operators which are potential candidates for the 3G licences.

Comba has also been active in the search for high-growth businesses that marry well with its strategic focus.

For example, last year it increased its equity interest in US-based WaveLab Holdings to 60 per cent. WaveLab is engaged in the research and development of digital microwave systems, a technology that complements Comba's line of antennae and repeaters.

Digital microwave systems are a potential growth driver, as large enterprises such as oil and power companies are using microwave technology to build internal networks to save costs.

For current customers, Comba provides extended maintenance services after the warranty period expires. This provides steady and recurring income to Comba as its customer base grows larger.

Although the wireless coverage equipment market has competitors like WRI and Powercom, Comba maintains leadership with complete provision of equipment and services.

Last year turnover reached $1.093 billion and net profit rose to $255 million, annual increases of 36 per cent and 21 per cent respectively.

About 74 per cent of the company's turnover was derived from indoor products, 16 per cent from outdoor products and 4.8 per cent from PHS. From 2001 to 2004, Comba had turnover of 36 per cent and net profit of 28 per cent.

There was strong growth from indoor-technology sales and exports, but gross margin dropped to 43 per cent from 46 per cent year on year, due largely to competitive undercutting.

Comba intends to expand its customer base so as to win future contracts and management expects gross margins to stabilise at around 40 per cent.

The company is keen to diversify its product mix and further boost export sales to 10 per cent of gross sales this year.

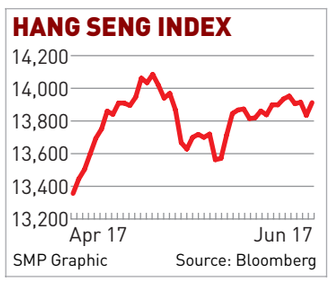
It is trading at 9.6 times estimated earnings with a 2.6 per cent dividend yield, a return on equity of about 23 per cent, and a debt-to-equity ratio of 14 per cent.

It is estimated that its annual growth rate for the next three years will be 20 per cent.

Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund. The fund is available to accredited professional investors only. info@pacificsun.com.hk

UPDATE

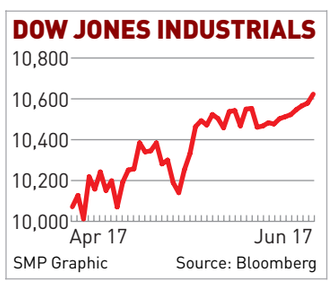
Your Money welcomes your ideas and contributions. Just e-mail us at money@scmp.com



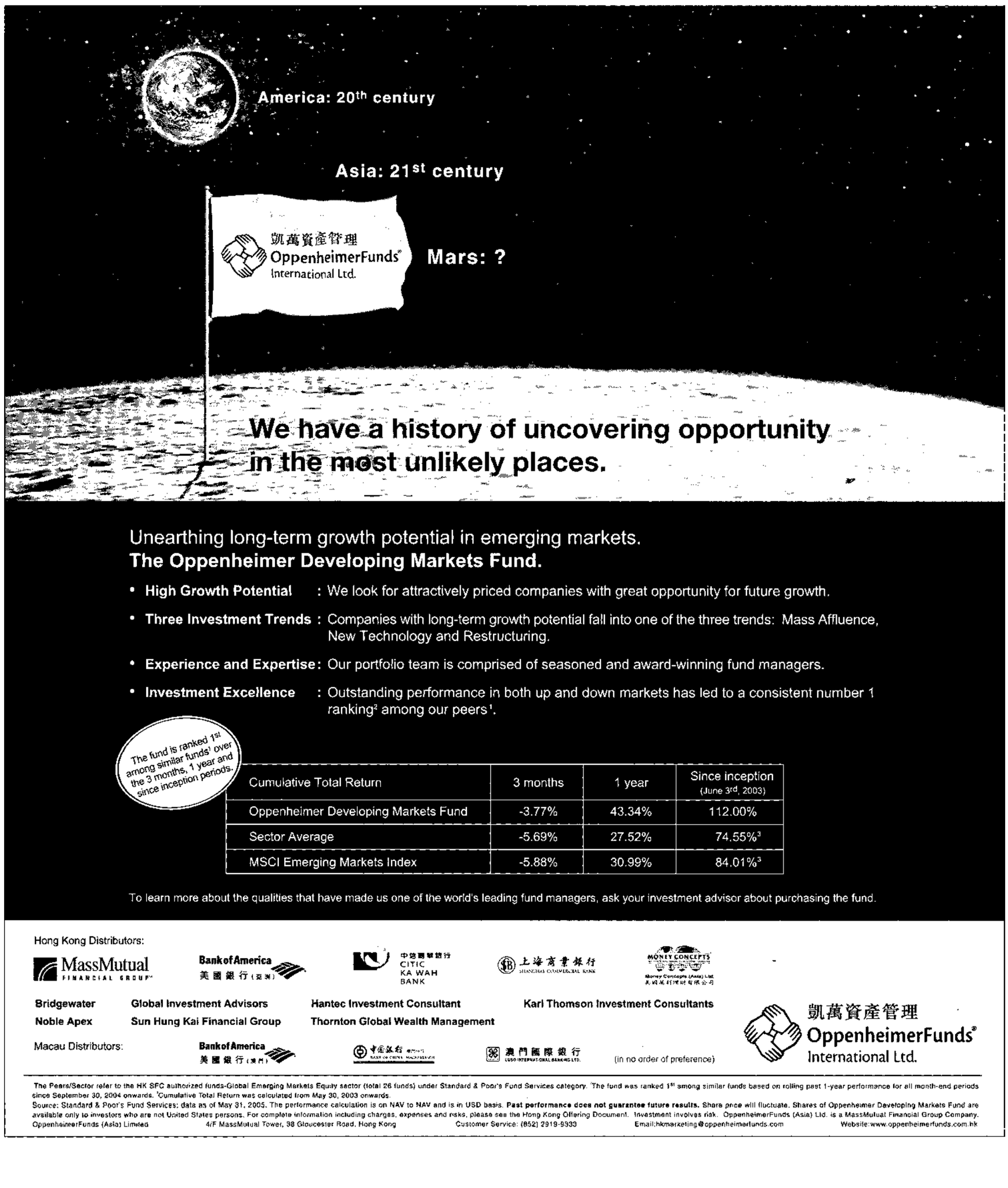
Hong Kong stocks are expected to be range-bound this week with impetus provided by China-linked initial public offerings, oil prices and telecom markers, analysts say.

"Frankly it could be boring but things are looking more on the upside because liquidity is moving from one sector to another, with telecoms appearing the biggest gainers," says Conita Hung, head of research at Delta Asia Financial Group. "Telecoms will be the driver, especially the China-related telecom stocks."

For the week the Hang Seng Index fell 22.73 points, or 0.16 per cent, to 13,912.03. *AFP*



This week investors tackle the question of how long stocks can rise in the face of record high oil prices. Commodity-related shares pushed up the major stock indexes last week as crude gained four days out of five and closed above $58 on Friday.

"We've had a pretty big run in oil prices and it hasn't seemed to have any impact," said Alfred Kugel, chief investment officer at Atlantic Trust/Stein Roe.

For the week the Dow rose 1.05 per cent to 10,623.07, the S&P gained 1.57 per cent to 1,216.96, and Nasdaq was up 1.31 per cent to 2,090.11. *Reuters*