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Small-cap fund outlines its 'incremental positions' strategy

SEACORP-SCHRODER SmallCap Fund Bhd aims to use a portion of its cash balances to take incremental positions in the stock market as it considers that an upward adjustment is likely in the short term.

Outlining its investment strategy, the move is taken with a view to lower the average cost of certain existing holdings and, by taking positions in new holdings, to create the potential for realising profits later this year.

"From an asset allocation standpoint, we have continued to maintain a high cash weighting. This has provided some cushion to portfolio market values," the investment manager said in the company's latest quarterly report.

Commenting on the investment outlook for the third quarter, the report said the stock market is expected to remain depressed.

Investors' attention, it added, will remain focused on the Japanese economy, currency and, in Malaysia - progress in the implementation of domestic economic policies designed to address the current economic problems.

In Japan, Seacorp-Schroder said the effects of the recently announced 16 trillion yen (100 yen = RM3.04) fiscal stimulus will not be felt until later in the year.

The economy package however, falls well short of the structural changes to the economy required to restore sustainable long term growth and bring stability to the yen.

"In the meantime the commitment in particular of the US and China to maintaining currency stability will determine the outlook for the yen and other Asian currencies in the short term," the report said. Domestic economic policy, on the other hand, appears to have taken a new direction in response to the rapid slowing of the local economy.

The Prime Minister Datuk Seri Dr Mahathir Mohamad's call to lower effective lending rates as a means to reduce the corporate sectors's debt service burden has led to a cut in the Statutory Reserve Requirement (SRR) to 8 per cent from 10 per cent.

It was recently announced by Bank Negara Malaysia that effective September 1, the SRR will be further cut to 6 per cent from the present 8 per cent.

The concern remains, said Seacorp-Schroder, that such efforts address the symptoms rather than the root cause of the country's economic malaise.

"Without a restructuring of outstanding problem loans and the subsequent recapitalisation of the banking system, a sustained fall in interest rate levels is unlikely to be achievable without triggering a self-defeating further round of damaging ringgit weakness," the company further mentioned.

For the six months ended June 30 1998, the company recorded a net deficit before finance costs and taxation of RM253.38 million.

The company also registered a total loss on investments amounting to some RM258.59 million for the half year period.

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