

Interview with HSL CEO

Heraymila Securities Limited (HSL) is a new name in the South Asian financial sector, but it's newness belies a wealth of financial wisdom and experience. It is the second foreign owned trading member of the Colombo Stock Exchange (CSE) and the first to set up office in the post war Sri Lanka.

HSL is fully owned by Heraymila Investments Ltd., (HIL) and is a UAE based international asset management company with investments in 33 countries. HIL is engaged in managing global investments including major banks and property development and in the leasing of Airbus 320 aircraft.

HSL's vision is to become one of the foremost financial organizations in Sri Lanka with a strong set of values, integrity, and commitment to build professional client relationships. To achieve this HSL operates with clear strategies. Firstly, HSL believes in winning the trust and confidence of their customers by giving honest investment advice.

Secondly, HSL focuses on what matters most - "Getting their buy and sell calls right." HSL follows a value-investing approach from a buy side perspective.

This week, Daily News Business features the CEO of Heraymila Securities Limited, Ravi Abeysuriya in this column.

Here are the excerpts of the interview:

Q: What is going on in the Stock Market'



Ravi Abeysuriya, Picture by Saliya Rupasinghe

A: Our market is going through a correction now, which is natural. After becoming the world's second best performing market in 2009, CSE emerged as the best performing global stock market providing a return of 96 percent for the year 2010. It is quite natural for stock markets to have significant ups and downs, because markets are driven by human behaviour, simply put "greed" and "fear".

Soaring stock markets lead to Alan Greenspan's infamous 1996 reference "irrational exuberance", where prices of stocks become out of sync with their fundamental valuations and the market becomes a "Pyramid Scheme".

Astute investors such as our present company who had been investing billions of rupees in our market since 2005 completely exited the market in 2010.

In fact, HSL research published in October 2010 clearly said that the Sri Lankan stock market is extremely expensive and is poised for a correction. This is exactly what has happened.

Now, when our market has started declining, "fear" has set in, and expecting further declines in the market, investors are staying away from investing in the stock market.

Because our investors have borrowed money to invest, the market decline has been exacerbated due to force selling.

Most of the investors who started investing in late 2009 and 2010 are experiencing a market correction for the first time. One cannot blame the regulator for this situation. It is time we learn the reality of stock markets.

Q: What advice would you give to investors?

A: Primarily, our investors need to educate themselves about investing. Investing involves understanding the company fundamentals. A commonly used measure of stock valuation is Price/Earnings multiple (PE).

This measure indicates how many times the stock price is in comparison to company earnings. Smaller numbers tend to indicate cheap stocks and higher numbers more expensive stocks.

Investors should avoid punting, where you invest on rumors and without any rational thinking. Excessive borrowing and investing in the stock market is extremely unsafe because one can lose heavily in a falling market.

Be wary of investing in speculative illiquid stocks as you may end up holding them when someone else is dumping.

The best advice I can give is to have a professional investment advisor that you can trust, who will take time to understand your return objectives and risk tolerances and recommend a portfolio of stocks that suits you.

**‘When everyone is GREEDY
you should be FEARFUL and
when everyone is FEARFUL
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Ensure that you make the decision to act based on the advisor's recommendations, and never give the authority to buy and sell stocks to your investment advisor. If you are giving the authority to buy and sell stocks on your behalf to your investment advisor, give it in writing as per the guidelines issued for discretionary accounts by the Colombo Stock Exchange.

It is imperative that you check your bought and sold notes as well as the CDS account statement to ensure your investment advisor is acting according to your instructions to buy and sell stocks.

If you find that, your broker has bought or sold stocks against your wishes, immediately inform the compliance officer of the stockbroker and if the company takes no action, inform the Colombo Stock Exchange.

If you cannot devote time and effort to learn about investing and to carefully follow your investments, make use of unit trusts to invest in the stock market. Unit trusts are managed by professional fund managers and are more suitable for retail investors who do not understand stock market investing.

Q: As a foreign owned company what expertise do you bring to Sri Lanka and as the CEO of HSL how do you support investors in Sri Lanka?

A: Our parent company is a well-experienced buy side investor that currently manages approximately 300 million dollars of global assets.

We are able to offer their expertise of investing in developed, emerging and frontier markets to institutional, high net worth and retail investors in Sri Lanka.

We have access to proven research methodologies, such as equity ratings based on 18 specific variables, investment screens and style cycle to recommend investments. We follow buy side principles of investing, meaning: we only recommend investments that are good enough for us to buy. All our client calls are channelled through our telephone system and are automatically recorded to safeguard our clients and investment advisors, in case of a dispute.

I strongly believe in professionalism, honesty and integrity. Being a CFA charter holder I am bound by the "CFA Code of Ethics and Standards of Professional Conduct".

HSL has fully adopted the CFA code of ethics that is one of the most stringent global standards to act with integrity, competence, dignity and in an ethical manner in providing investment advice and research.

In January 2012, Heraymila Capital will be launching the Sri Lanka - Heraymila Capital Growth Fund.

This is an actively managed open ended, growth, unit trust fund. This will provide a great opportunity for investors in Sri Lanka as well as abroad to participate in the Sri Lanka growth story.

Q: What are the key challenges that you face?

A: One of the key challenges we face is attracting good investment advisors. We are looking for professional investment advisors who are honest and have a passion to help investors make money the right way rather than by gambling.

We are also challenged by investors who have unrealistic stock market expectations. They are still living in the past and continue to expect extraordinary returns where the Colombo Stock Market grew 125 percent and 96 percent in 2009 and 2010 respectively. These extraordinary returns will not be repeated and investors need to adjust their mindsets and look for annual returns of around 25 percent, giving a reasonable risk premium over bank deposits.

Q: What changes in the Stock Market you see going forward to next year?

A: The CSE is executing several strategic initiatives to drive capital market growth. McKinsey & Company is developing a strategic roadmap for the capital market with detail strategic initiatives to take our market to the next level.

The National Stock Exchange of India is helping the CSE to introduce a Delivery vs Payment and a Risk Management System that would reduce counter party risk. We will soon have Standard & Poor's indices replacing the All Share and Milanka Index in keeping with international standards.

Q: Is there anything you would like to add in conclusion?

A: There is no smarter way of investing than gradually accumulating fundamentally sound stocks with growth potential that are trading at low multiples and selling them when their market price reach their fundamental valuations.

One last piece of advice to our investors from Warren Buffet "When everyone is GREEDY you should be FEARFUL and when everyone is FEARFUL you should be GREEDY".