



SECRET OF VALUE INVESTING

PART 2

THE WISDOM OF

**DR. NIWES
HEMVACHIRAVARAKORN**



I read an article on CNBC Indonesia talking about the 4 legendary investors in South East Asia, and I'm so lucky because I got to interview 2 out of the 4 investors.

One of them is **Lo Kheng Hong** (which I've shared the insights I got from the interview with him in the Part 1) and another is,

Dr Niwes Hemvachiravarakorn, which insights I will share in the following part.

For context, this **interview happened in 2017**. After procrastinating for years (6 years?) from the interview with Lo Kheng Hong,

I've finally written my insights into an eBook and it got such a great reception with awesome reviews.

And I originally intended part 2 to be out in a few months from part 1's release. It became more than 18 months. But here it is, part 2.

Enjoy.



DR. NIWES HEMVACHIRAVARAKORN BACKGROUND

Dr. Niwes Hemvachiravarakorn began his career in a securities company, where he was responsible for managing the company's investment fund.

He learnt the concept of Value Investing while taking PHD on Investment where he read about Warren Buffett and applied the concept onto his company's investment fund.

Unfortunately, he **lost his job during the 1997 financial crisis,**



and in need of income to cover his commitments, including funding his children's education in an international school, he was motivated to look for another way to generate income,

and that's where he remembered that **market crash is a great time to make a fortune by buying undervalued stocks.**



In
Every
Crisis
there is an
Opportunity

Despite the lack of a stable job at 44 years old, he decided to **invest his entire savings** which was **US\$300,000 in the stocks market** because he recognised the opportunity in the **crisis to buy undervalued stocks**.

He was able to **identify undervalued stocks with good dividends**, that can still have **stable business even during the downtrend**.

Dr. Niwes' strategy paid off, about a year later, he doubled his money.

This success encouraged him to share his knowledge and insights on value investing. He began teaching MBA students and writing extensively on the subject, contributing articles to newspapers and publishing over 20 books.

In fact, he helped popularised the concept of Value Investing in Thailand due to his amazing returns and his sharing.

And from what I last heard, his net worth went to as **high as US\$200 million** (and this was around 2017), a very impressive sum given that he **started with US\$300,000 and took only 20 years.**

He attributes his success to his disciplined approach to investing, focusing on long-term gains rather than short-term fluctuations.

Dr. Niwes emphasizes the importance of understanding business fundamentals, market cycles, and maintaining a patient, disciplined approach to investing.

His story is one of resilience, strategic thinking, and a deep understanding of market dynamics, making him a respected figure in the field of investment.

In the following parts, I will share more details on his investment & success philosophies.



Initially Dr Niwes **focuses more on Value Investing**, especially **during economic crisis** period of 1997 where he was looking for companies that have strong fundamentals that deal in essential goods and services.

This strategy **leans towards more stable, defensive stocks that are likely to perform reliably even in economic downturns**. This includes looking at the company's revenue, profits, and dividend track record.

One of the stock he chose was a company that selling some fast moving consumer goods related to foods (if not mistaken, Thai President Food that sells Mama Instant Noodles) at the price of purchase compared to it's historical dividend was giving around a **10% dividend yield** and was selling at a **P/E ratio around 5 or 6 times**.





He thinks that the company is doing great with majority market share, good margins and **selling something people need** but no much people are buying the company's stocks, either people are not aware the company is still doing good, or people just sell because they need the money. Seeing this opportunity, he went in big and after that, he's almost all in stocks with his money.



After he has made his money, **almost 100% gain in a year from his investment in 1997** from buying undervalued stocks, he **switched his investment philosophy to focus more on growth**. And that's where he looked at clothing companies because during crisis, people don't think much about clothes but on food instead but when economy recover, clothing companies may do better.

In times of recession, focus on value stocks, in times of recovery, focus on growth. This is in line with Warren Buffett's switch from Value Investing to ValueGrowth Investing. So he started looking for stocks in new industry that have growth but is selling at low prices. He said normally, the idea is to buy great company at normal prices, but at the time, there were opportunity to buy great company at low prices.

NOW HIS MOST IMPORTANT
CRITERIA IN INVESTING IS GROWTH.

**THE COMPANY HAVE HIGH LIKELIHOOD TO BE
GROWING IN THE NEXT 3 TO 5 YEARS.**

**THEIR REVENUE, PROFIT & DIVIDEND SHOULD
INCREASE IN THE NEXT 3 TO 5 YEARS.**

**IF NOT, DON'T BUY IT. THEN MONITOR
THE PERFORMANCE EVERY QUARTER TO
SEE IF THEY CAN ACHIEVE,
AS WELL AS WHETHER THEIR PRODUCTS
ARE ATTRACTIVE, ARE PEOPLE STILL
USING IT.**

MENG TECK'S COMMENTARY

Growth stocks are generally classified as companies that **people expect will grow fast** and may tend to be **selling at high prices compared to their recent earnings**.



However, these stocks may not necessarily have very strong proven business model as they may be quite new businesses. Value stocks tend to be priced cheaply in terms of their **prices compared to their earnings or their book value**. And a good value stock would be one with strong proven business that is defensive.

If I can buy a growth stock at value stock prices, that would be even better!

It's interesting for me to review the lessons again and to see how true it is. I am writing this in 2023 and I have seen how different types of stocks perform in different environment.

In the **depth of the market crash in March 2020**, the stocks that **dropped the most are mostly growth stocks that were richly valued**, while **defensive stocks didn't drop so much**.

The background is a dark blue space-themed illustration. It features a large red planet at the top center, a blue planet on the left, and several yellow stars scattered throughout. A white rocket with red stripes and a red flame is positioned on the right side, appearing to launch from a white cloud-like base. The overall aesthetic is clean and modern.

However, when the market recover, with government globally giving stimulus to the economy, in late 2020 & 2021, growth stocks outperformed defensive stocks.

However, economy recovery & fiscal condition starts to look challenging with increasing interest rate, inflation in 2022 & 2023 and that's where many "growth" stocks came down while defensive stocks outperform.

When I first heard about this strategy switching idea from Dr.Niwes, it was quite a new idea to me because I thought a value investor would only stick to the same strategy throughout, but I think the idea of locking myself to a rigidly defined strategy may not be the best.

What matters is smart investing and I think the key here is whether it's value or growth stock, Dr.Niwes's consideration is **whether this stock's underlying business will grow in the next 3 to 5 years in this economic environment.**

How does Dr.Niwes understand the growth prospect of a company?



Dr.Niwes believes in the power of self observation. According to him, **good investor cannot be high up in the tower** but must be on the floor to see what's happening on the ground. Be down to earth or they may lose touch with the market. He likes to go to the shopping centre to **see what people are buying** and see how the businesses he is investing in or thinking to invest is performing in from the perspective of **attractiveness to consumers.**

But he did mention the **predictability of a business profit can be difficult especially when we are investing in industries that can get disrupted by technology**, hence, we must do this kind of ground survey. For example, he once invested in a book store, one year their growth slowed down drastically without a financial crisis in the market and he started looking for the reason and he found his wife started using iPad everyday and young people look at internet, Facebook and not reading books much. So he think the trend has changed and he sold his shares in the company. And it was a good move as the company's revenue went down afterwards.

Is Macroeconomics Important?

There is a consideration of broader market and economic conditions in his investment decisions, understanding the macroeconomic environment that could affect his investments because **if the country's economy is very slow, it's also challenging to make good returns.** This wasn't a concern in the past because many countries were growing continuously but times are changing. Big investors in US may not be concerned with macro because the US economy is still doing well as their population is still young due to immigrations but other countries need to be careful. Such as demographics of Thai getting old, and hence he started looking at Vietnam.

Countries where the average age of the demographic is getting old make it challenging to grow the economy and for investors to get good return from stocks. For example, in Vietnam, when the children of the current working class grows up, the older citizens will have more money to invest for retirement, and at the time, interest rate may come down, then a lot of money will come into the market seeking return. That is the time where market could really boom and that is the time to sell. It may take 10 years but we can wait.

MENG TECK'S COMMENTARY

This view from Dr Niwes is an interesting insights as my impression back then was Value Investor don't really look at macroeconomic and it was interesting to hear that Dr Niwes considers this factor. One thing that is increasingly becoming a challenge in mid term for economic growth in many countries is the aging population. Contrary to what many people believe, **in many places, we are not having overpopulation problem, but instead, underpopulation.**

People are not having as many children as in the past and the average age of many countries are becoming old. This is a challenge if we take the traditional thinking of **young people need to work to create economic value to support their elders and their children.** However, the **coming of the A.I age may change that.**

If A.I & robotics can do more and more of what humans do, then an aging society may not necessarily lead to economic catastrophe.



What is Dr Niwes's definition of attractively priced stock? What does he look at to determine the attractiveness of the price?

□ He looks at **PE ratio** (ideally, less than 10 but must make sure earnings won't go down), **price to book value** (mostly for business that depends on asset to make money such as manufacturer & real estate company or even banks, looking for less than 1), **dividend yield** (at least 3-4%) and **market capitalisation**.

Market Capitalisation = The current share price X total number of the outstanding shares in the company.

□ Market capitalisation is very important to him especially for long term. He **compare market capitalisation to the total addressable market** of this company in the future.

□ **Holistic view is important** because the PE ratio may seem low now but if earnings will go down (for example, those in cyclical industry like shipping & agriculture. For those, maybe Price to book is more suitable), then it could still be expensive. If the PE ratio is high now but profit can shoot up, can be cheap also. In short, it is not as simple as looking at a metric and jumping to conclusion but it is about looking at various factors combined.



On Management.

We want a management that's both capable and have integrity. Usually performance of a company would reflect how capable is the management. But what we want to look for is integrity and that can be done by **monitoring the management's actions** over long period of time.

Especially in corporate exercises & acquisitions.

See whether they make sense. See whether they hide ugly things. He doesn't really visit the AGM often but rather he like to visit the stores himself.

Out of 20 years investing, Dr Niwes only has 2 losing years.

Even in 2008, he only lost 14% of the portfolio's value. When market up, he make more, when market down, he lose less. That's because he choose defensive companies , very strong but can still grow. So even in crisis, the **share price doesn't drop much because the company's revenue, profit and dividend can still grow.**



Entry & Exit Strategy :

He will have a **watchlist of stocks** he likes but the price is too high and he will monitor to see if they have a big drop. He will **wait for the share price to drop really cheap** and when the share price **stabilise & settles**, that's when he buy. When he sells a stock, he also don't sell a little bit but will exit the position in a substantial way.

What are the types of stocks he focuses on?

Business with strong competitive advantage.

Not necessarily those that grow fast only, but most important is **stable & sustainable**. And it should be in a **growing industry but preferably not too much abrupt change**.

He wants business that has **proven to be able to continue doing what they do and grow, not something volatile**. And it is important for us to identify **what are the key KPIs of certain industry that allow companies to compete**, for example, for retail clothing companies, the scale is very important as big volume allows the sourcing of better products at lower prices.

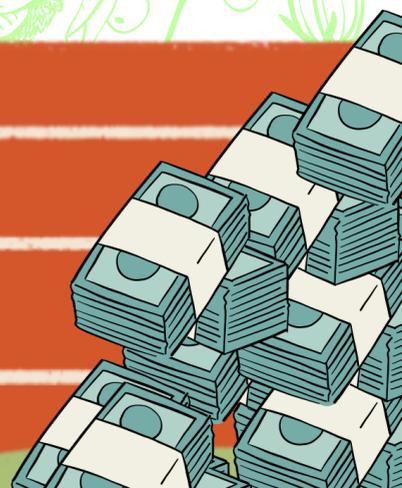
And the products at the extreme end of the prices don't get disrupted as easily, for example, super luxury goods, people tend to buy for the brand and want to buy in store. Very low prices product is not worth selling online due to shipping cost.

In short, even if the numbers look good on paper, he may not invest immediately but will observe for awhile to see **whether the competitive advantage has been established.**

But doing this could make him miss out sometimes?

But to him, it's fine. If it goes up, it's not his stock, he rather miss out than to lose money. So usually when he buy, the share price even if go down temporarily, usually will recover and make him profit in 2 to 3 years, and if it is still down, he may sell because something may be wrong.

Rule No 1 : Don't Lose Money. Rather be slow than to lose money.



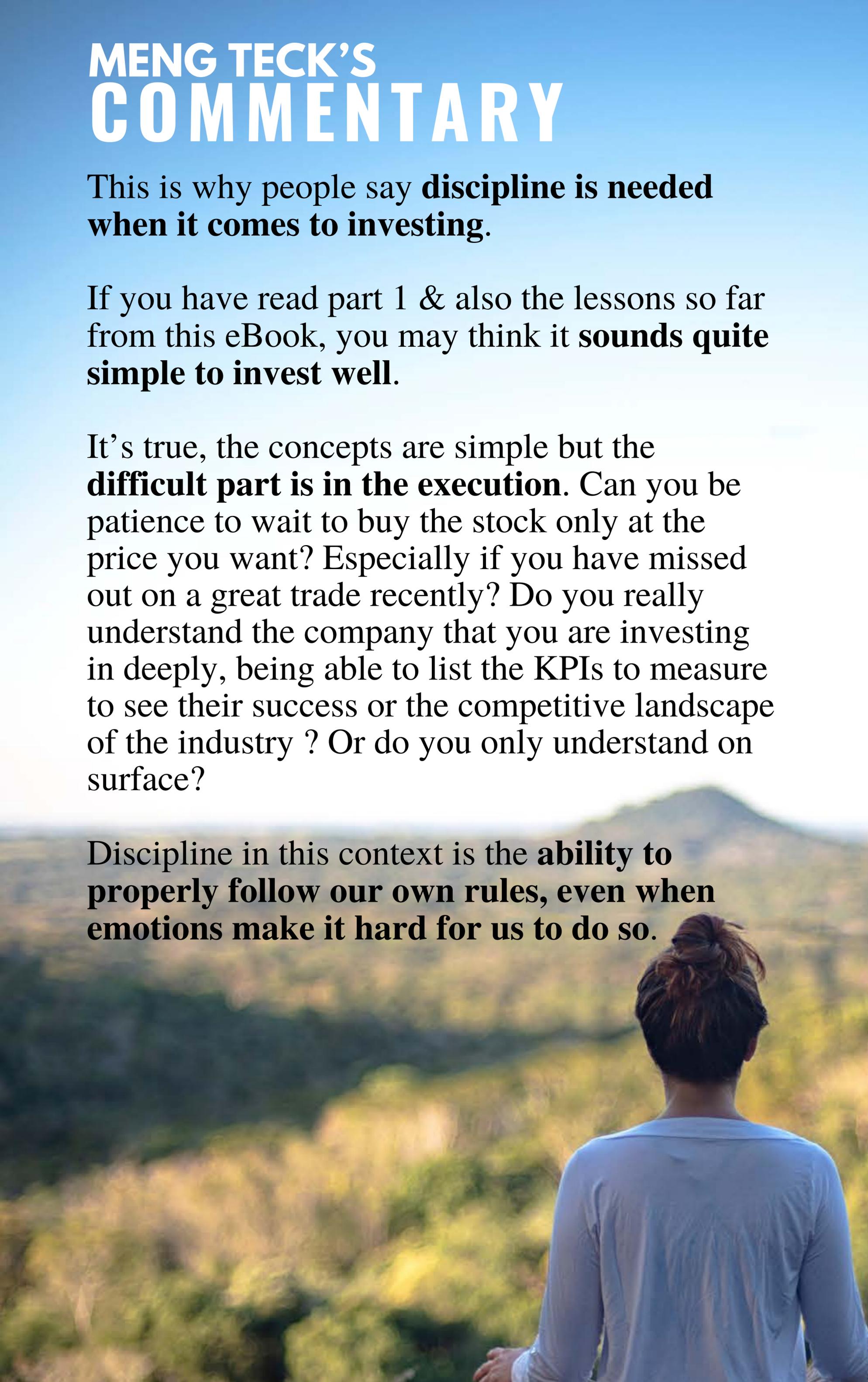
MENG TECK'S COMMENTARY

This is why people say **discipline is needed when it comes to investing.**

If you have read part 1 & also the lessons so far from this eBook, you may think it **sounds quite simple to invest well.**

It's true, the concepts are simple but the **difficult part is in the execution.** Can you be patient to wait to buy the stock only at the price you want? Especially if you have missed out on a great trade recently? Do you really understand the company that you are investing in deeply, being able to list the KPIs to measure to see their success or the competitive landscape of the industry ? Or do you only understand on surface?

Discipline in this context is the **ability to properly follow our own rules, even when emotions make it hard for us to do so.**



How does he diversify?

He diversifies in the greatest company in 6-7 different industries. 5 to 6 stocks could make up like 70% of his portfolio. With **no stock taking more than 30% of his entire portfolio size**. He may enter a stock and if he likes it and thinks the factors are going for the stock, add more.

How does Dr Niwes invest in Vietnam? A country he is not familiar with?

He use different criteria together ROE (Return On Equity), PE Ratio, price per book, dividend yield and also market capitalisation. Then he **diversify in 100 companies that fulfils these criteria**.

Sort of like creating his own value investing ETF. He may not even know some of the company's names. So far (as of the time of the interview) he has made around 40% gain in 2 years. He invested in companies in various industries but more on those **that can benefit from the country's growth, for example, utility, electricity production** because he think as country continue to grow, they will need to use more electricity and one of them is paying him around 10% dividend yield!



When to sell?

Dr Niwes invest in a company because they are great company and at cheap prices.

But with most industries, there are time when a business growth hit the ceiling or a company may lose its competitive advantage or if the company grow much slower than its competitors.

That is when he will sell. From his track record, many of his stocks, he sell them **after they have gone up 10X.**

(But it takes about 10 years). The key to this is to find companies that can grow.



10X

On Growth.

He may not look for every year must grow but **on average the growth rate should be 15% per annum compounded** or more.

If the growth fail to materialise, he will review to see what is the reason and consider to sell the stock.

(To illustrate the example again, here's the bookstore story : he once invested in a bookstore company, the business was really good, but one year their growth slowed down drastically without a financial crisis in the market and he started looking for the reason and he found his wife started using iPad everyday and young people look at internet, Facebook and not reading books much. So he think the trend has changed and he sold his shares in the company. And it was a good move as the company's revenue went down afterwards.)



MENG TECK'S COMMENTARY



Even though many people can read this book and practice the lessons here, the results each person will get from their investment can still be very different.

One of the factor would be **foresight & insight**, how do you “see” the growth of the future, how do you “sense” the decline of competitive advantage of a company early?

Picking up experiences over time may help, but if you want to reduce your learning curve, this is where the next habit comes in...

Habit Of A Successful Investor : Read, A Lot.

Dr Niwes **reads a lot everyday**, not just financial news but world knowledge such as technology trend as well as **history, economy and human psychology**. Because he believes **half of the success in investing is about managing emotion**.

And history tells us that there are always crisis and within these crisis, it may expose some great opportunities. Besides reading, Dr Niwes also think it's very important to **have independent thinking**. To not follow the crowd. And to look at events **not just on possibility but on probability**. For example, if a management promises good things, don't just listen to the good things but think about how likely that could happen? Is the industry really growing? How's the competitive landscape? We need to **understand these factors and judge for ourselves**. So if there is growth projection, he will want to look at the industry & the landscape and judge for himself how likely that will happen.

This probability idea is also applied in portfolio management where we don't just go into one stock with high probability of success. Instead, we go into few stocks with high probability of success. That way, our portfolio would better reflect our stock picks as the sample size is higher.

On book suggestion :

Of course, a good book would be Dr Niwes's written books on investing. However, it may not be available in English. So other alternatives suggested are : Peter Lynch's One Up On Wall Street & The Intelligent Investor by Benjamin Graham.



Advice for young investors.

Be patient. Investing is unlike other activity where speed & activity is rewarded. In investing, sometimes being slow & having inactivity is better. **The effort is not on the action but on the thinking to ensure the factors are in your favour.** Don't try to guess whether this quarter's result will be good or bad, or try to sell first then jump in later.

It's dangerous because it's difficult to get the timing right and sometimes after we sell, it don't go down but instead it go up, it will be very difficult to go against emotion to buy at higher price than we sold, and hence we could miss out.

And some people are so anxious when it comes to investing, they are watching the price all the time, don't even dare to go to the toilet when prices drop because they are afraid they will lose money.

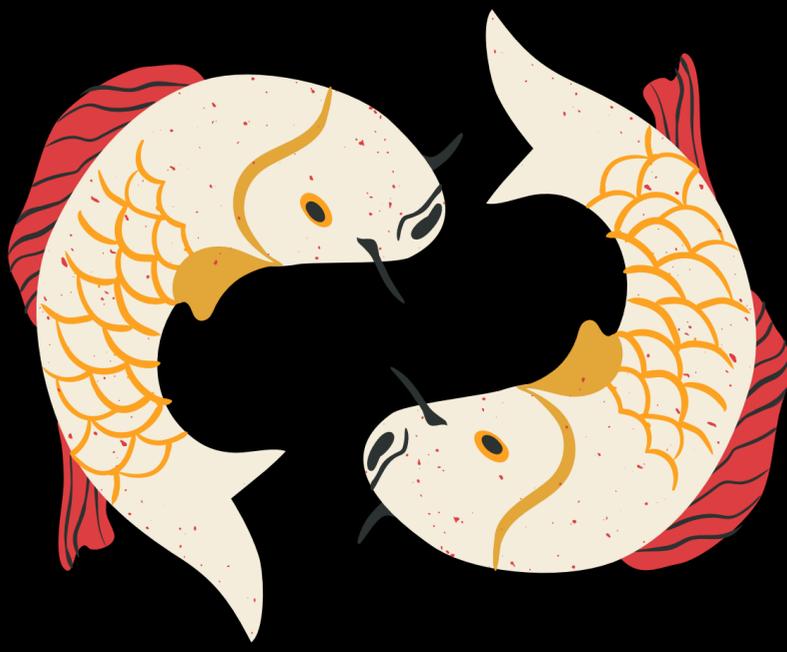
Why It's Important To Live Below Your Means :

A glass jar filled with coins and a green plant growing out of it.

Dr Niwes was able to **invest big and capture the opportunity** because **he didn't have a very high monthly cost** other than for his children's education.

His principle of savings : He will **not spend the money from his investment as long as he still have active income.**

Only when he need to use it when he retire or for emergency. This allows us to look really long term, like 30 years. If we are not going to use the money in the next 3 to 5 years, why look short term? When people look short term, they make mistakes. Like some people buy company only focusing on this year profit, but what if the company profit drop in next 2 to 3 years, then they would be going in high and have to sell low.



While Dr Niwes(Left) & Lo Kheng Hong(Right) have some differences in the way they invest, their way of investing & view of money is very similar in many ways :

Reading (or Observing) , Thinking, Investing...

If there's one common theme I can find between these 2 investors is, they emphasise the **importance of gaining knowledge**. If you study what they do as investor, it's boiled down to : Reading (or Observing) , Thinking, Investing...



Live Below Your Means

And both of them emphasises the importance to live below your means and **not to have wasteful spending**. This is an important step because that's **how you get your savings to invest**. And when you invest with your savings, you tend to be able to think longer term rather than having the pressure to jump in and out because you need to make money in the shortest time possible.



Buy Good Businesses At Undervalued Prices



Both investors focuses on buying good businesses at undervalued price. But must be good business. Not just cheap businesses. Because many beginners misunderstand that value investing is buying cheap stocks, it is not just cheap but **quality is very important.**

Crisis = Danger + Opportunity, and is a great time for us to make profits.

Both investors made huge profits when they bought stocks during crisis. However, they didn't simply buy any stock but they analysed that **the companies they are buying can become better in the future and the market is wrongly pricing the stocks too cheaply.**

Know What You Buy.

They also emphasises a lot on **doing research before you buy a stock.** Whether that is through reading, or ground research so we really know what we are buying deeply.



Looks for honest & competent management.

Both believes that its very important to look for **company with honest management with good corporate governance**. Whether a management is competent or not can sometimes be seen from the track record of the company's performance. But very importantly, we need to check management integrity through the **corporate actions history to see if it harms minority shareholders**.



Both give back to society through education.

This is something I really admire about them. It's not just that they are wealthy in terms of money but that they are **wealthy in their heart** as well, looking to give back to society and to provide value through education. I am one of the beneficiary of their sharing and I hope through this eBook, you can benefit from their lessons as well.



Special Reward For Making It All The Way To The End : Invitation To Take Your Learning To The Next Level

Hey, if you enjoyed reading this eBook and want to implement the lessons you have learnt but you do not know where to start, I have an invitation for you.

From time to time, I may run live events that is designed to bring beginners like you to make your first investment in stock, intelligently. Here are some of the things covered in my event :

1. How To Open An Account To Invest In Stocks
2. Step By Step Guide To Using The Stocks App Through A LIVE TRADE.
3. How To Invest In US Market As Malaysian.
4. Case Study On How I Used The Value Investing Lessons Here On A Malaysia Listed Company's Stocks & Doubled My Money!

And much more... And guess what?

As a reward for completing this eBook, I want to give you free ticket to this live event. You can check out & register for my upcoming event at : bullmarketmillions.com