The rock-and-roll investor

Student investor Lee Xin Hong picks stocks by drawing inspiration from value investment philosophy and his favourite pastime – music, writes JAMIE LEE

A S A STUDENT in Victoria Junior College, Lee Xin Hong wanted to be a musician and practised his guitar fervently in hopes of taking the stage like his favourite guitarist Joe Satriani. Though he has since changed his mind, music continues to influence the second-year Singapore Management University (SMU) accounting student in his investment decisions.

Xin Hong, who started investing two years ago, has focused on companies with strong business strategies and determined their stocks' intrinsic value, in the same way that Mr Satriani – who has taught big names such as Steve Vai and Metallica's Kirk Hammett, but failed to pick up a Grammy award after 14 nominations – has remained faithful to the fundamentals of rock-and-roll.

"The fundamentals of rock-and-roll would be what I equate to Benjamin Graham and Warren Buffett's ideas," said the 23-year-old student, who has pumped more than $20,000 into American companies such as Moody's Corp and Bank of America (BoFA).

"Like 1980s rock, it's unpopular among the masses – out of fashion, some might suggest. People who will buy your services will not approve of the volatility that comes with this philosophy, but it is a firm rooiness upon this foundation that we believe will bring success. We just stay the course."

Mr Satriani once told an online guitar magazine, Modern Guitars, that the melody is more important than the scales and speed of the music. He said: "I don't think I can really be happy with a piece of music unless I feel it's got a real strong melody to it, some interesting chord harmonic work, a solid groove, and a good backbeat or swing to it."

"Xin Hong sees investing in the same way."

"My music teacher once said that you could play the same line in 3,345,789 permutations and think it's a cool academic exercise, but it's not music. In the end, it's about playing one line with the most sensible finger- ing, with emotions and making it sound good," said Xin Hong, who picked up the guitar at age 15. "Although there are 3,345,789 ways to make money on the market, I use only one which makes the most business sense: value-oriented with a heavy dose of [Warren] Buffett's and [Bill] Miller's philosophy," he added.

While the US market has slumped in recent months due to the sub-prime crisis and as market watchers predict a recession in the American economy, Xin Hong said some companies have strong sustainable competitive advantages that have been overlooked in times of panic selling. He has lost about 15 per cent through his stock portfolio but believes that the markets have failed to analyse the fundamental strengths of these companies.

American Express, for example, has an extensive network and has been able to charge a much higher rate to premium customers compared to other credit card players such as Visa and MasterCard, noted Xin Hong, who has bought shares in the company.

Both Moody's and BoFA have taken the worst beating among Xin Hong's portfolio, with Moody's falling about 30 per cent and BoFA down by about 20 per cent, but Xin Hong said both businesses have fundamental strengths.

"Their businesses are probably not in irreversible troubles, so we'll just wait and see. I can handle BoFA's mistake on their CDOs (collateralised debt obligations) because I've checked its maximum exposure and it probably won't 'kill the bank,'" said Xin Hong, who is also the research director for fundamental analysis at SMU's E.Y.E Investment Interactive Club.

He will also hold on to Starbucks, noting that while the market has reacted partly to lower consumer confidence, the stock has yet to sell below a 30 price-to-earnings (PE) ratio and in expanding aggressively to China.

Xin Hong added that he was now looking at beverage stocks, which have been hit by damaging consumer sentiment. "I am seeing a repeat of 1998 when people were slamming businesses like Coke because of the crisis," he said. "I still believe in a 100 per cent equity portfolio because volatility doesn't affect me in any way. A crash in price by 10 per cent is just another day at the office. It's happened over the past few months and I've been more overjoyed than distraught."

And he will continue to focus on stocks – a strategy that makes use of his own competitive advantage since he understands them best. "Even though a lot of people try different things to make bigger returns like trading in commodities and derivatives, I'm happy with plain-vanilla stocks. It's not exciting – but investments were never really meant to be exciting in the first place," he said.

"You just buy and sit 'till death do us part."