WELCOME COMPLEXITY

EquitiesTracker.com's Jimmy Vong explains why IFRS convergence is good news for investment analysts and ponders how the profession can aid investor decision-making

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While International Financial Reporting Standards (IFRS) convergence and compliance might have been frustrating for many stakeholders, due to the complexity of accounting standards and a lack of the requisite level of accounting proficiency among readers of financial reports, it has been embraced by value investment analysts such as Jimmy Vong, founder and managing director of regional independent equities research portal EquitiesTracker.com.

'I like the complexity and sophistication that has been introduced in accounting reports. As a prolific user of financial statements, we read more than 1,000 reports a year from Malaysia, about 800 from Singapore and another thousand more from Australia,' explains Vong, whose company operates in three markets – Malaysia, Singapore and Australia.

'IFRS is a good thing in terms of standardisation in definitions and financial presentations and compliance with generally accepted accounting principles. It is a globalising move. When you pick up a set of accounts in both country X and country Y that have adopted and implemented these standards, there can be a higher degree of certainty that the interpretation is based on the same assumptions used to prepare the underlying figures.

'This removes a considerable amount of work from the old formats, where we had to try to determine what each country's reporting meant and redo the numbers for comparative analysis,' he adds.

ACCOUNTING VALUATIONS

While he ardently supports convergence, Vong believes that the accountancy profession can do much more to improve financial reporting and thus facilitate investors' decision-making. He singles out the issue of accounting valuations, 'which have remained at the heart of financial analysis for a long time'.

'Concepts such as cash accounting versus accrual accounting have been debated for a long time but are yet to achieve practical accounting application,' he says.

Should financial reports be restricted to reporting on a historical value basis versus reporting on current values or even future value projections? Might auditors go a step further by providing assurance on current and future values? Traditionally, investment analysts are the ones generating future value projections which are extrapolated based on historical data, Vong says.

'Whether it is within the purview of the accounting profession to rise and expand its scope of coverage is something that the profession itself must address, or face the criticism of losing substantial ongoing relevance. Or should it be left to the investment analysis profession to come up with the formats and the numbers?' queries Vong.

Of course, it could also be argued that reporting on current and future valuations might breach confidentiality agreements between the profession and its clients, and that regulatory guidance and further legislation might be needed if financial reporting is to expand its scope.

Nonetheless, Vong acknowledges that 'despite all shortcomings in the product offerings of the accounting profession, there is no current substitute for the third-party validation and authentication that financial statements offer, and upon which investors must rely upon as an indispensable starting point. If you take this away, what will we analyse?'

Meanwhile, Vong would also like to see other key factors incorporated into the presentation of financial statements. These include inflation, deflation, monetary expansion, currency exchange effects and other quantifiable factors that 'currently cannot be incorporated meaningfully into the financial statements, but will be needed in investment analysis'.

He adds that the 'quality of data is really dependent on audit standards. As the end user we will never know the extent of compliance.' However, analysts like Vong have learnt to recognise the red flags of dubious data, such as 'the lack of accounting notes that enable us to decipher the mystery of the numbers. And as data providers, our major tool against embellishment and distortion of numbers is to use statistical tools to see if trends exist. If numbers are unreliable, they cannot be taken into account in the formation of trends.'

An accountant by training, Vong argues that the skillsets unique to accountants make them ideally suited to become investment analysts. Oddly enough, most accountants gravitate towards the traditional routes of assurance, audit and tax as well as industry, leaving many non-accounting professionals to take up the mantle of investing. 'Many financial analysts from a non-accounting background think that they know accounting, and as a result, are unable to catch incidents of creative accounting. IFRS is tough for most analysts, and is beyond a lot of analysts who are grounded in other disciplines. Accounting knowledge is a very important starting point for analysis,' he says.

To succeed as a financial analyst, Vong stresses the importance of seven basic skillsets: accounting, statistics, mathematics, economics, behavioural sciences, law, and modern finance. In addition, analysts need a broad and in-depth understanding of technology and need to thoroughly understand the company and sector under investigation.

Given the synergies of accounting with investment analysis, accountants are perhaps the perfect candidates to explore career diversification as private equity professionals, says Vong.

OPTIMISING RETURNS

Vong also touches on future investment trends, noting that informed analysis and knowledge will be vital to minimising risks and optimising returns in a global environment where markets remain volatile and visibility impaired.
In his view, higher volatility could see retail investors veering more towards investing on fundamentals, especially as they expand their knowledge of value investing. 'Profitability and dividends will count heavily going forward.

Where higher risks are to be assumed, investors will have to be compensated by profitable business growth and the payment of those profits back to investors.'

Delinquent corporate behaviour on a growing scale also means that investors are becoming increasingly aware of the need to allocate capital more prudently. Might retail investors be more leery of speculative investment after being burnt by the consequences of poor corporate behaviour? While market volatilities are likely to continue at historical rates, notes Vong, 'Large investors cannot totally assume that retail market players will remain totally speculative driven by fear and greed and make mincemeat out of them.'

Another bugbear for investors chasing returns is unfettered money creation, such as the quantitative easing programmes being unleashed in the US to stimulate growth. 'The pressure that is being exerted by huge and compounded money creation on a global scale, if not directed towards productive sectors, will be reflected by diminishing returns in the real sectors, thereby affecting stock markets.'

As a result of poor performance in developed markets, might investors divert more capital to smaller and emerging markets? 'The direction of governmental monetary and fiscal policies for smaller and emerging markets will be important to determine if they will continue to support real growth and expansion and private sector profits rather than being redistributive in nature,' says Vong, in an indirect dig at Malaysia's fiscal policies aimed at achieving social re-engineering.

'Thus, markets with less governmental emphasis on redistributive policies will become much more attractive to investors if the elements for wealth creation remain in place despite the higher risks.'

To succeed in today's markets, Vong highlights the 'critical need' for investor education. 'Money affects everyone and inflation is a factor that everyone will face in their lives. Building real wealth over the long term is key and for that, training, education and the application of knowledge are vital.'

Vong champions financial literacy education which should ideally be offered at school level, he says, and will go a long way to educating the public on how to read financial reports. In fact, EquitiesTracker.com has since made it part of its mission to offer investing courses for novice investors in an effort to reduce what Vong calls 'innumeracy'.

PASSION FOR STOCKS

Vong's love for stocks was ignited when he was just 11 years old. 'My uncle had brought me to the Kuala Lumpur Stock Exchange (which still featured the open-cry system) and I was amazed at how transactions could get done in all the hue and cry,' reminisces the founder and managing director of EquitiesTracker.com.

With his knack for numbers, Vong was in the first batch of accounting students at the then University of Singapore, once accounting programmes had been transferred there from Singapore Polytechnic. Subsequently, he practised as a registered accountant, compiling data on stocks in his free time.

Technology in the shape of early computing systems in the 1980s proved to be a boon. 'It was affordable to run numbers through the computer and analyse them,' he explains.

Vong began digitising financial data in 1988, and eventually began to market his products to institutional investors and wholesale clients via the business platform of EquitiesTracker.com.

From its early beginnings as an equities research portal, EquitiesTracker.com has since branched out to providing services to retail investors as well as investor education programmes in English and Mandarin.

EquitiesTracker.com also offers investor education programmes carrying CPD points to ACCA members in Malaysia. Courses ran from mid-2010 to the end of 2011, and are due to start again in June.

Although Vong is now in semi-retirement, he still dreams big – to ultimately establish and differentiate Malaysia as an export hub for private equity investment professionals. 'The challenge for us is to develop sufficient private equity professionals and turn the country into an export base from which investment consultancy services can be exported remotely on a global scale,' Vong enthuses.

He adds that the rapid greying of Asia, the escalation of internet technologies, the hollowing of government pension schemes and the growing regional need for retirement planning mean that prospects look bright for this sunrise sector.

Nazatul Izma Abdullah, journalist

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