

Role of retail investors

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Stock market insiders are mixed on the role individual investors will play when trading begins on the Cambodia Securities Exchange

The debate centers on both the amount of capital these players – also known as retail investors – may inject into the market, and the resulting liquidity they may or may not provide.

“I think there is a stratum of society here that does have the money and will play in the market,” said Leopard Capital Managing Partner Scott Lewis.

“I think most of the activity is going to come from retail investors,” he added.

Lewis was not alone in his outlook for the exchange, which is set to launch next month, though trading may not begin until later in 2011.

Cambodia Capital Securities Managing Partner Morten Kvammen looked at consumer data from its domestic partners to generate an anecdotal picture of the potential retail investor market here. In addition to researching mobile customers, Kvammen also surveyed ANZ Royal Bank’s premier clientele, which the bank defines as someone with a minimum account balance of US\$25,000.

“It’s a client base of, I think, several thousand people. And ANZ is not the only bank in town with a large, high-end customer base,” he said.

He estimated there were at least 100,000 potential individual investors in Phnom Penh, where most of the country’s wealth is concentrated.

Although that number may seem small relative to an overall country population of about 15 million, he said it is “still a significant number in terms of investment power.”

“We’d be happy if it were a few thousand people” who may trade stocks on the exchange, Kvammen said. “But we think the number is significantly higher.”

He claimed the stock market would be “viable from the get-go,” saying there were enough sophisticated investors in the Kingdom to warrant a strong start.

Svay Hay, president and managing director of ACLEDA Securities, said he expects a similar level of interest.

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He predicted 30 percent to 40 percent of shares from the Cambodia Securities Exchange’s first initial public offerings would be bought by retail investors.

The law presently requires at least 30 customers for an IPO, but there will most likely be hundreds of individual investors buying these deals, Svay Hay said.

“So there’s potential for both the institutional investor and the retail investor,” he said.

Insiders said they will look to these retail investors to provide much-needed liquidity in the market, as they tend to buy and sell stocks with a quick, short-term outlook.

“That might be the most significant contribution to the market,” said Kyung Tae Han, Cambodia representative for South Korea-based Tong Yang Securities.

He agreed that retail investors would play a role in the exchange, though he expected foreign money to lead the way with Cambodians following after.

Even so, others doubt the impact these investors might have.

ANZ Royal Bank Chief Executive Officer Stephen Higgins said liquidity is most often provided by large institutions, and not individuals.

“I’d be surprised if the principle source of liquidity is retail investors,” he said.

He noted that wealthier Cambodians have traditionally preferred to invest their money in either gold or in local bank accounts.

In addition, the wealthy typically are business owners, and investments in their own companies offer greater returns than the stock exchange, he said.

That would leave only the money of smaller investors, who he doubted held enough capital to drive the market.

Higgins also said Cambodia Capital’s may have at least slightly overestimated the size of his premier client base, and that he didn’t expect sizable retail investor interest early in trading.

One test for investors may be market volatility, or when they experience their first loss, he said.

In Laos, trading volumes have dropped significantly “after some early excitement,” the same as with Vietnam, he said. Investors may be less inclined to buy shares if they suffer similar declines. “Trying to know what will happen with any degree of certainty is just not possible,” he said.