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The Outlook & Management of SGX MSCI Asia APEX 50 Index Futures

(Part 2)

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Event : WEBINAR

Standard: All Traders Levels

Date : 2 Sep 2008 (Tue) – 2100 Hrs (Singapore Time)

Speaker : DAR Wong, APSRI

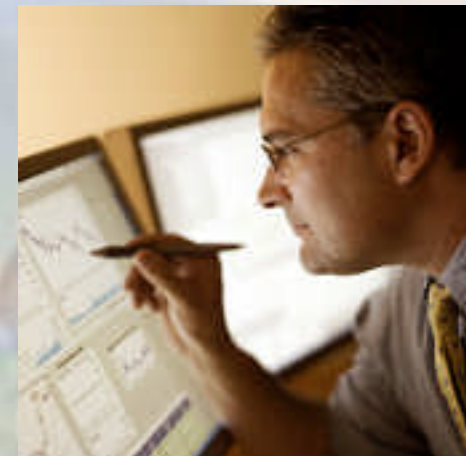
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Acknowledgement

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- **Singapore Exchange Ltd**
- **Interactive Brokers**
- **NextView Pte Ltd**

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Risk Disclaimers

- **Margin trading involving Futures instruments are high risk business activities.**
- **You are advised to evaluate own risk appetite, risk tolerance and risk capacity before initiating this business trade.**
- **You are advised to seek licensed member firm of SGX, its corresponding partners or professional licensed advisors for trading opinions, advices and obtain full declaration of risk before opening a trading account.**



CEO's Background of APSRI

- **1989 – 1991 Bank of America Futures Inc**
- **1991 - 1992 Bankers Trust Futures Inc**
- **1992 – 1993 DCNY Futures / Barclays ZW Futures Inc**
- **1993 – 1996 Smith Barney Shearson (Citigroup)**
- **1996 – 2001 Non-Clearing Local Trader**
- **2002 – 2008 Hedge Advisor & Consultant in Malaysia, Indonesia, Singapore, Thailand, Vietnam.**

Main Strength

- **Trader & Advisory in Risk Management**
- **Contributor for financial magazines e.g. The Traders Journal & Pulses**
- **Weekly columnist for The Borneo Post newspapers**
- **Independent Trainer for Singapore Exchange Ltd (SGX) & seminar speaker cum trainer for financial institutions**





Contents of Module-2

- 1) Market Allocation & Correlation of APEX 50 Index**
- 2) Case Studies: Portfolio Hedging Using Lyxor ETF Instruments**
- 3) Trading Risk Management & Market Forecast**



1. Market *Allocation* & *Correlation* of APEX 50 Index

CHINA

1. *China Mobile*
2. *ICBC (H)*
3. *China Life Insurance (H)*
4. *CNOOC**
5. *PetroChina Co. (H)*
6. *China Construction BK (H)*
7. *China Petro & Chem (H)*
8. *China Shenhua Energy (H)*
9. *Ping An Insurance (H)*
10. *Bank of China (H)*
11. *China Merchants Bank (H)*
12. *China Communic Constr- (H)*
13. *China Telecom Corp (H)*
14. *Bank of Communications (H)*
15. *China Coal Energy (H)*

KOREA

1. *Samsung Electronics Co.*
2. *POSCO*
3. *Kookmin Bank*
4. *Shinhan Financial Group*
5. *Hyundai Heavy Industries*
6. *Hyundai Motor Co.*
7. *Samsung C&T Corp*
8. *Shinsegae Co.*
9. *NHN Corp*
10. *SK Energy Co.*

HONG KONG

1. *Cheung Kong Holdings*
2. *Sun Hung Kai Properties*
3. *Hong Kong Exch. & Clearing*
4. *Hutchison Whampoa*
5. *Hang Seng Bank*
6. *Esprit Holdings*
7. *CLP Holdings*
8. *HongKong China Gas*
9. *Swire Pacific*
10. *BOC Hong Kong Holdings*
11. *Li & Fung*

TAIWAN

1. *Taiwan Semiconductor Mfg*
2. *Hon Hai Precision Ind Co.*
3. *Cathay Financial Holdings*
4. *China Steel Corp Common*
5. *Nan Ya Plastic*
6. *Formosa Plastic Corp*
7. *Au Optronics Corp*
8. *Mediatek Inc*
9. *Asustek Computer*

SINGAPORE

1. *Singapore Telecom*
2. *United Overseas Bank*
3. *DBS Group Holdings*
4. *OCBC Bank*
5. *Keppel Corp*

You Are Managing TOP 50 Stocks in ASIA at ONE GO

Allocation & Weighting % of APEX 50

| Market | Qty of Stocks | Weight % |
|---|----------------------|-----------------|
| China (H-shares & Red Chips) | 15 | 34.6% |
| Korea | 10 | 22.9% |
| Hong Kong | 11 | 16.9% |
| Taiwan | 9 | 16.9% |
| Singapore | 5 | 8.7% |
| TOTAL | 50 | 100% |

| Sector Industries | Weight % |
|---------------------------------------|-----------------|
| 1) Financials | 34.5% |
| 2) Information Technology | 20.4% |
| 3) Telecommunications Services | 13.9% |
| 4) Energy | 9.8% |
| 5) Materials | 7.9% |
| 6) Industrials | 6.8% |
| 7) Consumer Discretionary | 3.5% |
| 8) Utilities | 2.2% |
| 9) Consumer Staples | 1.0% |
| TOTAL | 100% |

Correlation of APEX 50 with Various Instruments

- **The 3 most popular, heavy-weighted and stock related ETF instruments traded in ASIA:**

- **Hang Seng Enterprises China Index (HSCEI)**

- **Hang Seng Index (HSI)**

- **MSCI Asia ex Japan Index (MSCI ex JPI) <click>**

- **According to statistics, we have derived the correlations of APEX 50 with these 3 instruments as below:**

- **1 point movement = 0.931 point (HSCEI)**

- **1 point movement = 0.955 point (HSI)**

- **1 point movement = 0.959 point (MSCI ex JPI)**

How to Hedge?

- **The purpose to hedge your portfolio is to attempt to minimize losses**
- **Hedging is executed by entering a new position in opposite direction but in (almost) same market specifications** <click>
- **The notional contract value of APEX 50 is equivalent (USD50 x market index value)**
- **If you are using HSCEI to hedge, simply divide the APEX 50 contract value by the trading Index Value of HSCEI, in order to obtain the hedge ratio.**
- **The above applies likewise to HSI and MSCI ex JPI**

Where to Find HSCEI, HIS & MSCI ex JPI?

- **All the aforementioned 3 instruments are listed in Singapore Exchange (SGX) in the Equities Board as Lyxor ETF stocks**
- **ETF means “Exchange Traded Funds”**
- **ETF stock functions exactly as a stock market instrument but guaranteed by the corporate issuer of the product.**
- **ETF stock is an open-end-fund instrument that can be managed by individuals**
- **Low cost and no mandatory holding period**



2. Case Studies: *Portfolio Hedging* Using Lyxor ETF Instruments

Trade sample 1

A US based fund manager with USD100 million has decided to utilize 10% of his asset management to diversify in Asian equities, using SGX MSCI Asia APEX 50 Index futures.

Assume if the market is trading at 741.0, the fund manager needs to calculate the number of contracts to be opened as below:

<click>

**No. of futures contract = USD amount to be invested
contract notional value**

$$= \text{USD}10,000,000 / (741.0 \times \text{USD}50)$$

$$= 269.90 \text{ contracts}$$

Therefore, the fund manager needs to purchase 270 contracts (lots) of SGX MSCI Asia APEX 50 futures to gain its asset allocation of Asian markets.

Futures market provides more leverage than acquiring the individual stocks on outright purchase.

Trade sample 2

A fund manager is holding long to the Asian equities with broadly diversified portfolio, worth approximately USD1,200,000 upon purchase.

He anticipates the Asian economy is going to face a decline but would like to hold on to his equity positions. Thus he hedges the full portfolio value by selling SGX MSCI Asia APEX 50 Index futures.

Assume if the market is trading at 698.5, the number of contracts needs to be opened by the fund manager as below: <click>

$$\begin{aligned}\text{No. of futures contract} &= \frac{\text{USD amount to be invested}}{\text{contract notional value}} \\ &= \text{USD1,200,000} / (698.5 \times \text{USD50}) \\ &= 34.35 \text{ contracts}\end{aligned}$$

Therefore, the fund manager needs to sell 35 contracts (lots) of SGX MSCI Asia APEX 50 futures to hedge on the expected market downfall.

Trade sample 3

A private investor anticipates an imminent bull-run in Asia markets. He plans to invest USD250,000 but is hesitant which market and individual stock to establish long position.

Assume if the market is trading at 660.0 and the initial margin is 10% on each open-contract, the number of contracts he can hold on will be as below: <click>

$$\begin{aligned}\text{Initial margin per contract} &= \frac{\text{contract notional value}}{10 \% \text{ margin}} \\ &= (660.0 \times \text{USD}50) / 10 \\ &= \text{USD } 3300\end{aligned}$$

Thus, this private investor can initial 75 lots (US\$250K /US\$3.3K) of long position in SGX MSCI Asia APEX 50 futures to gain a well-balanced exposure in whole Asia market bull-run. <click>

If he is able to sell off the position 3 months later at 825.0, his profits would be as below:

$$165 \text{ points} \times \text{USD}50 = \underline{\text{USD } 8250}$$



3. Trading RISK *Management & Market Forecast*

3a) Entry / Exit of Your Trade

- Trade entry is captured based on either one of these formation e.g. flag, channel, extension etc.
- Trade entry based on 30 min or 60 min chart can usually find an exit in 4-8 hours.
- Trade entry based on daily chart will be positioned for 2-4 days. In special circumstances, up to 2 weeks.
- Trade entry based on weekly chart will be positioned for few weeks to few months. <click>
- Therefore, exit time of your entry will depend on the time variation you are using
- For example, trade entry based on 5 min, 10 min or 15 min chart can usually find an exit in half an hour – 2 hours time.

3b) Risk Management

R

1. Buy on breaking up

2. Stop order placed on previous bottom

S

1. Sell on breaking down

2. Stop order placed on previous high



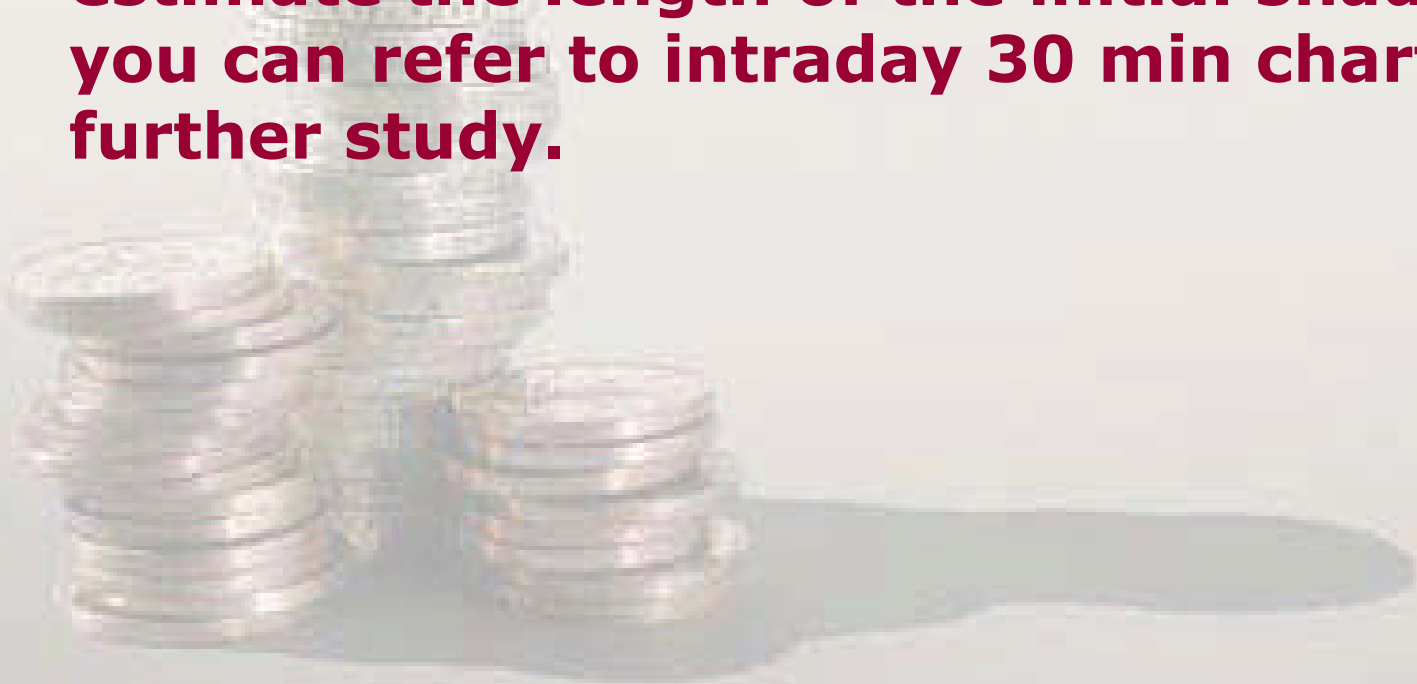


3c) Strategize Your Daily Trading Plan

- **Understand the market trend and determine which market formation it is doing now.**
- **Estimate your daily average range of the trading market by taking the average true range over previous 9 days. <click>**
- **Enter from the initial shadow as it may carry potential for intraday trading.**
- **Place stop order from at a comfort range behind your entry level.**
- **Target exit price is usually very near to estimation of last 9 days average range.**



3d) The Summary

- **To gauge an exact entry for a trade and estimate the length of the initial shadow, you can refer to intraday 30 min chart for further study.**
- 



Observe 3N-Rule as Your Daily Trading Basic:

- ***Never think the market is wrong! (market doesn't move in the way you want it)***
- ***Never sit on a losing position! (only do that in the range of your stop loss limit)***
- ***Never trade if you are confused! (or if you are not ready)***

MXAPEXA ↓ **738.55** -5.30

Index **GP**

At 16:13 Op 742.67 Hi 742.67 Lo 732.72

MXAPEXA INDEX

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GPC - Candle Chart

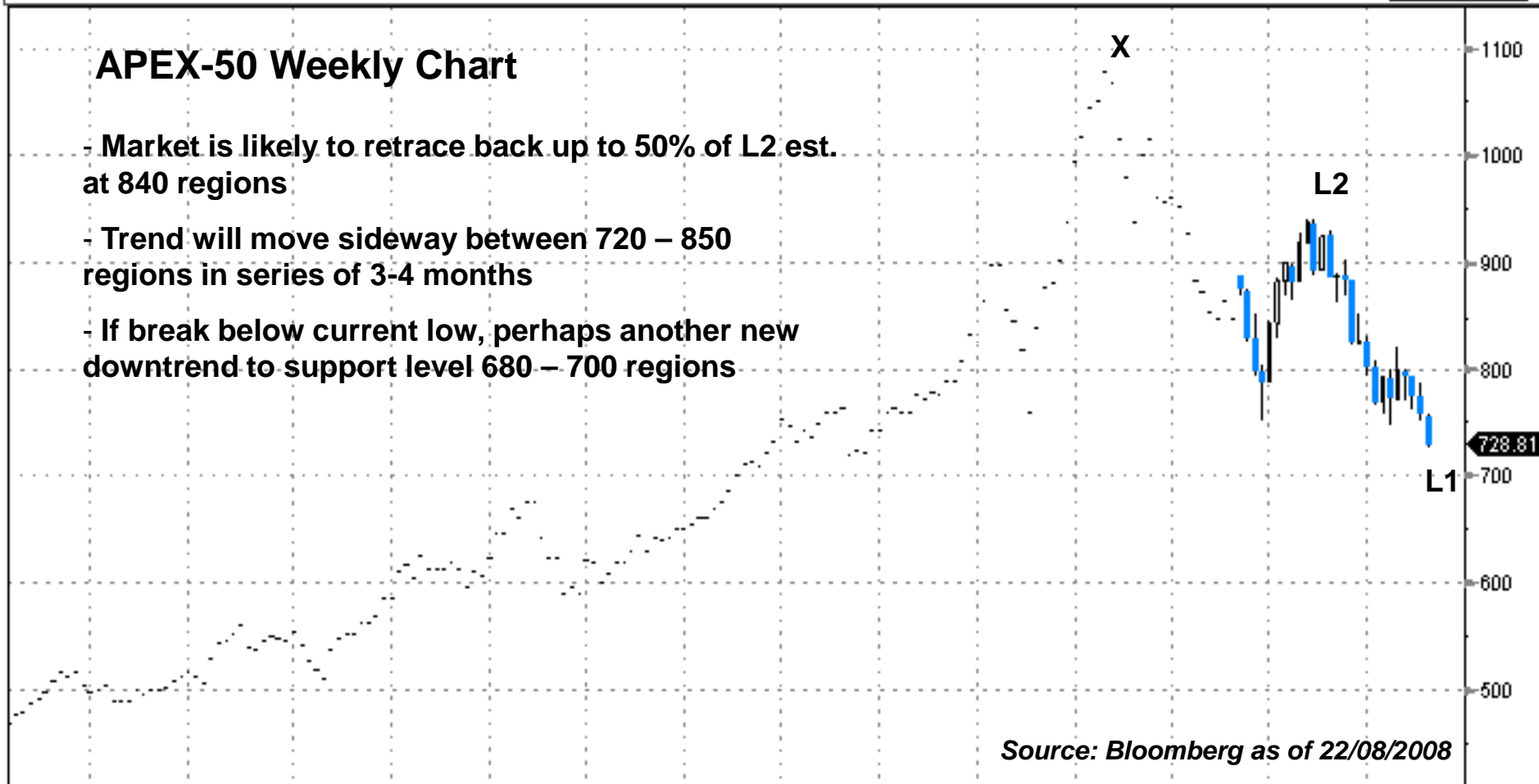
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Range 01/07/05 - 08/22/08 Upper Candle Chart Mov. Avgs Currency USD

Period Weekly Lower None Mov. Avg 15 Events

APEX-50 Weekly Chart

- Market is likely to retrace back up to 50% of L2 est. at 840 regions
- Trend will move sideways between 720 – 850 regions in series of 3-4 months
- If break below current low, perhaps another new downtrend to support level 680 – 700 regions



Source: Bloomberg as of 22/08/2008

Mar 25 Jun 24 Sep 30 Dec 30 2005 Mar 31 Jun 30 Sep 29 Dec 29 2006 Mar 30 Jun 29 Sep 28 Dec 28 2007 Mar 28 Jun 27

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
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MXAPEXA ↓ **738.56** -5.29

Index **GP**

At 16:12 Op 742.67 Hi 742.67 Lo 732.72 Prev 743.85

MXAPEXA INDEX

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GPC - Candle Chart

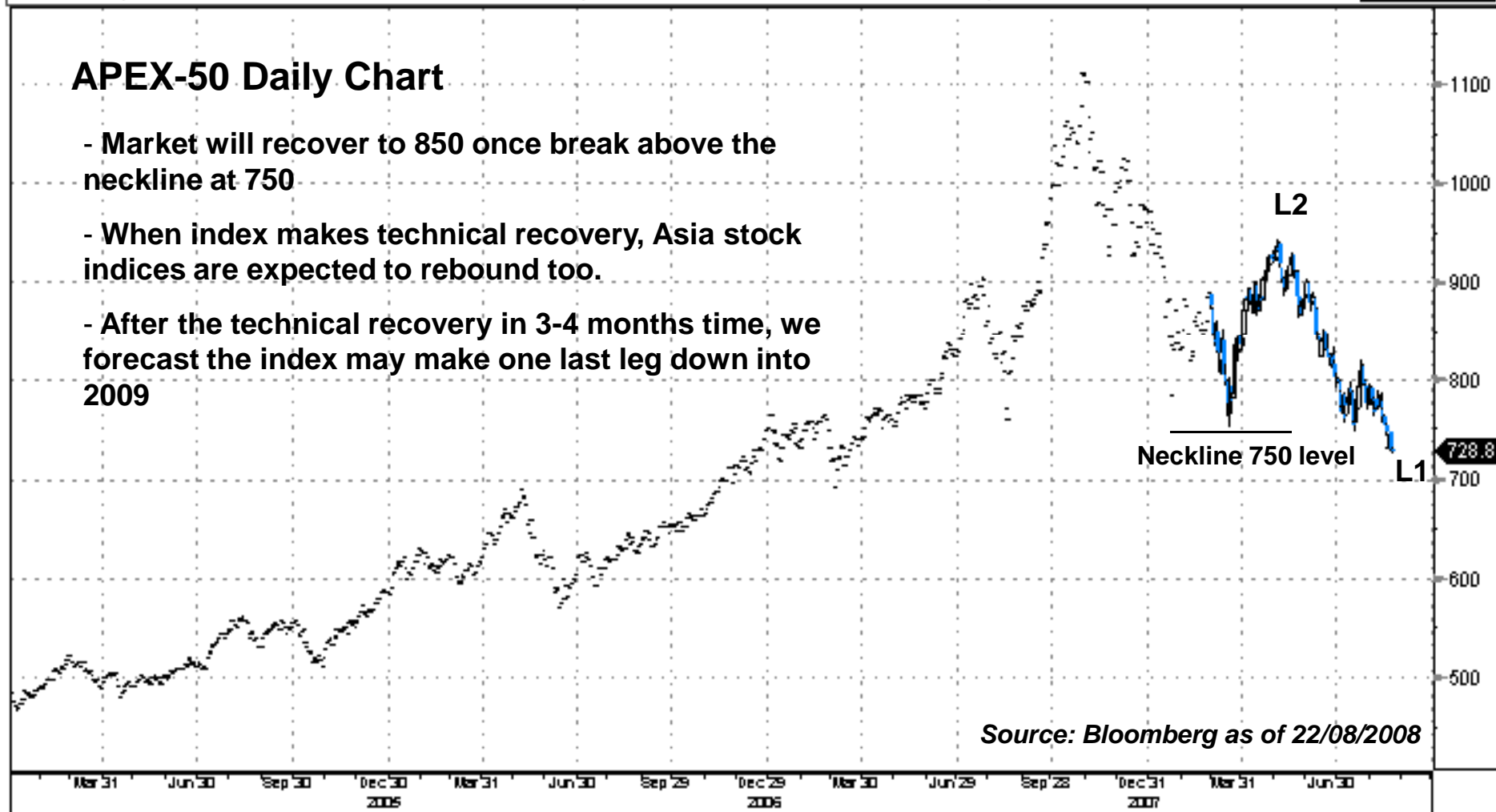
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Range 01/03/05 - 08/22/08 Upper Candle Chart Mov. Avgs Currency USD

Period Daily Lower None Mov. Avg 15 Events

APEX-50 Daily Chart

- Market will recover to 850 once break above the neckline at 750
- When index makes technical recovery, Asia stock indices are expected to rebound too.
- After the technical recovery in 3-4 months time, we forecast the index may make one last leg down into 2009



Source: Bloomberg as of 22/08/2008

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
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our website <http://www.PWforex.com>**



***A good trader is one who predicts
accurate variables of market timing vs.
prices, together with effective risk
management. – DAR Wong, APSRI.***

