INVESTORS cannot rely just on the price-to-book (P/B) ratio to make investment decisions, said a speaker at an investment fair last Thursday.

Among the problems with using P/B exclusively is how intangible assets have been taking up a bigger portion of balance sheets, said Jonathan Lim Chuan Ren, an equities dealer at Phillip Securities.

The ratio also fluctuates across sectors and is irrelevant for high-P/B sectors such as healthcare. He was speaking last Thursday at the My First Stock Carnival @ UniSIM, an investment fair held by the Singapore Exchange (SGX) and SIM University (UniSIM) aimed at educating students on the topic.

Brokers such as Phillip Securities, Maybank Kim Eng and Lim & Tan Securities were present.

The P/B ratio shows how much a business is trading above or below its net assets, which may be an indicator of value. However, net assets can be inflated, noted Mr Lim. Since 2000, as companies accumulated excess cash, he said that a wave of mergers and acquisitions around the world had caused more goodwill to be recorded on balance sheets.

Goodwill is an intangible asset, the excess amount which a company pays for another above the target’s book value.

Intangible assets such as patents can also be recorded on the books of biotech or pharmaceutical companies. If another drug company comes up with a better product, other patents can be rendered useless, and their value would drop to zero, he said.

The price-to-book ratio also varies widely across industries. It is more relevant for utilities and energy stocks where physical assets are represented in their net assets, but for intangible assets such as healthcare stocks, which tend to have high ratios, and for tech assets, in a bull market, the price-to-book ratio will be inflated, which suggests that in a recession, it may be a better gauge.

Investors should examine the price-to-book ratio only in the context of market conditions, in select industries, and without intangibles, he said.

An SGX Academy – UniSIM Investment Symposium was also held last Saturday. There, speakers shared investment concepts and tips. Topics include an introduction to the Singapore market, the STI ETF, real estate investment trusts (Reits) and portfolio allocation.

SGX and UniSIM had signed a memorandum of understanding on Feb 20, 2014, to collaborate on developing and providing investor education to the public.

At last Thursday’s event, students rolled giant dice as they played a Monopoly-like game on a giant board on stage, called “Invest Quest.”

There, they had to make choices on how much to buy and sell Singapore-listed stocks such as StarHub, Keppel Corp, or Singapore Airlines, depending on which squares they landed on. If they landed on a “Dividend Pay-out” square, they gained 5 per cent on their stock portfolio. They could also get caught in bull markets or bear markets, where the value of their holdings could rise or fall by 20 per cent.

Landing on a “Chance” square also allowed players to increase their cash by answering questions such as “How do you determine market capitalisation” or “Name one financial ratio that indicates a growth stock.”

The team with the highest accumulated cash and portfolio value at the end of the time limit was 50 sing from the STI ETF, each, worth around S$159 each at latest market prices. This is an exchange-traded fund (ETF) tracking the Straits Times Index (STI) benchmark.

Students also played a bingo game where they learnt about familiar local brands owned by stocks listed here: 7-Eleven (Dairy Farm); 100 Plus (Thai Beverage); Topman and Yoshinoya (Wing Tai); Bugis+ (CapitaLand Mall Trust); and Toast Box and Din Tai Fung (BreadTalk).

Daniel Kao, a medical doctor who is also a trainer on value investing, was invited by Lim & Tan Securities to speak on the topic. He asked if one would invest in a char kuay teow stall if the food tastes terrible. “Value investing is buying good businesses at sensible prices,” he said.

“Many people anyhow buy, without understanding what they are buying or the price they are paying.”

Intangible consistency of earnings is one way to evaluate businesses, he argued.