


 Adam in *The Greed of Man*


Source: TVBI

Figure 1

Adam Cheng Effect

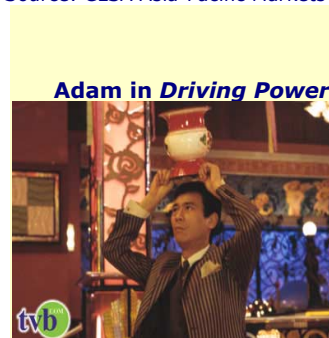
How the omen begins...

The tongue-in-cheek *Adam Cheng Effect* was first mentioned in the media in late 90s. It was the time when the Hang Seng Index slumped 11% after TVB began to broadcast the TV series *Cold Blood Warm Heart* on 2 February 1996, with Hong Kong TV star Adam Cheng being the lead actor. People started to accuse Adam's shows for the poor stock market performance, and correlated it with other crashes, especially the one in late 1992 – Adam played the role of the most crazy market punter "Crab Ting" in the series *The Greed of Man*. The HSI plummeted 20% during the show! (Figure 1)

Market performance after Adam's show

		Max. decline during the series			# of episode		3M %chg	
TV Series	In Chinese	Low	HSI Index	% chg	to bottom %	broadcasted from bottom		
The Greed of Man	大時代	03/12/92	4,978	-20.1	24	60.0		29.3
Instinct	笑看風雲	12/12/94	7,708	-20.1	31	77.5		5.2
The Legend of Chor Lau Heung	香帥傳奇	02/05/95	8,212	-0.2	2	4.5		14.6
Forty Something	男人四十一頭家	13/06/95	9,103	-4.9	7	35.0		5.3
Cold Blood Warm Heart	天地男兒	13/03/96	10,249	-10.8	28	43.1		6.0
Legend of Yung Ching	江湖奇 傳	12/01/98	8,121	-24.5	31	51.7		39.7
Lord of Imprisonment	神劍萬里追	11/08/99	12,438	-14.3	28	77.8		13.4
Divine Retribution	世紀之戰	19/10/00	14,423	-15.2	29	72.5		10.5
The Driving Power	非常外父	08/10/03	11,721	-0.1	3	15.0		14.2
		Average =		-12.2		48.6		15.3
Blade Heart	血薦軒轅	???	???	???	???	???		???

Source: CLSA Asia-Pacific Markets


 Adam in *Driving Power*

Source: TVB.com

Figure 2

Adam Cheng Effect does not last for the whole series

TV Series	In Chinese	Episode	Channel	Start	HSI	Finish	HSI	% Chg
The Greed of Man	大時代	40	TVB	02/11/92	6,231	25/12/92	5,442	-12.7
Instinct	笑看風雲	40	TVB	31/10/94	9,646	23/12/94	8,312	-13.8
The Legend of Chor Lau Heung	香帥傳奇	44	ATV	01/05/95	8,226	30/06/95	9,207	11.9
Forty Something	男人四十一頭家	20	TVB	05/06/95	9,570	30/06/95	9,207	-3.8
Cold Blood Warm Heart	天地男兒	65	TVB	05/02/96	11,484	03/05/96	10,734	-6.5
Legend of Yung Ching	江湖奇 傳	60	ATV	01/12/97	10,751	20/02/98	10,600	-1.4
Lord of Imprisonment	神劍萬里追	36	ATV	05/07/99	14,507	20/08/99	13,567	-6.5
Divine Retribution	世紀之戰	40	ATV	11/09/00	17,008	03/11/00	15,594	-8.3
The Driving Power	非常外父	20	TVB	06/10/03	11,734	31/10/03	12,190	3.9
		Average =						-4.1
Blade Heart	血薦軒轅	37	TVB	08/03/04	13,574	25/04/04	???	???

Source: CLSA Asia-Pacific Markets

Adam in *The Legend of Yung Ching*

Source: ATV

Historical performance

Historic trends show that the *Adam Cheng Effect* on average drives the market down by 12.2%, ranging from the smallest decline of 0.1% during the period of *Driving Power* in October 1993 to the maximum of 24.5% when ATV was broadcasting *The Legend of Yung Ching* at the end of 1998.

Fortunately, *Adam Cheng Effect* does not last for the whole period of the series (Figure 2). Our analysis shows that the market usually rebounds before the series ends. The Effect lessens from about halfway to two-thirds of the way through the series. The stock market then recorded gains within six months in most cases. The following charts show the HSI performance during each of Adam's series. The numbers in the centre of the charts show the maximum decline during the periods while the numbers at the bottom refer to the number of episodes and percentages of the series played when the market hit the bottom.

Figure 3

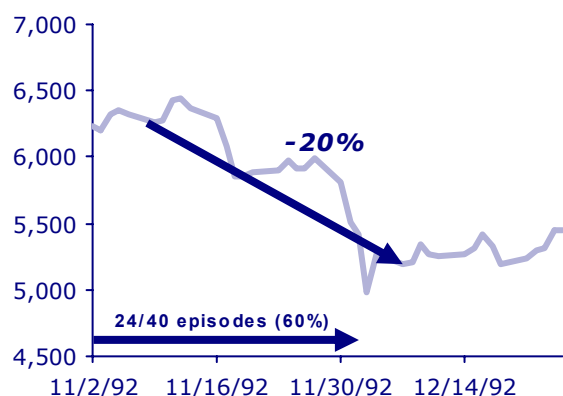
The Greed of Man (大時代)

Figure 4

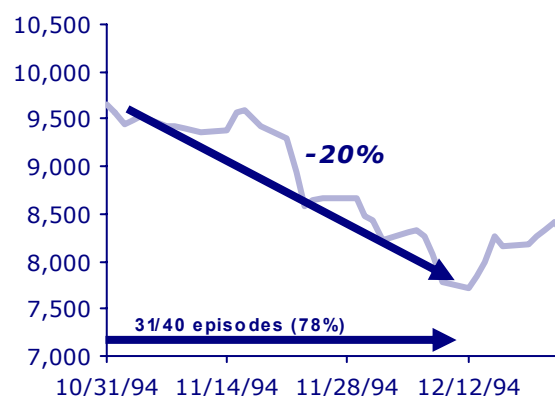
Instinct (笑看風雲)

Figure 5

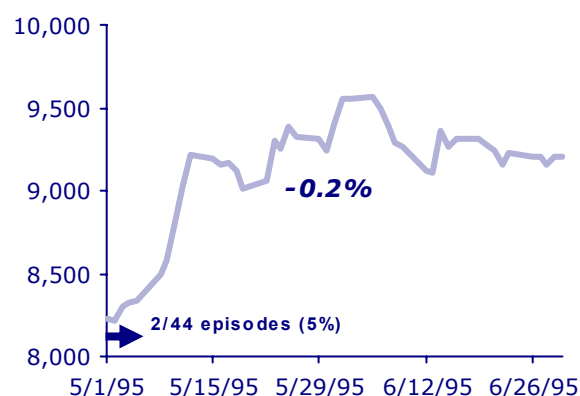
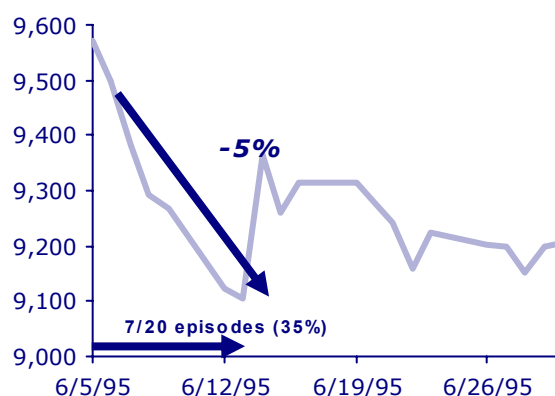
The Legend of Chor Lau Heung (香帥傳奇)

Figure 6

Forty Something (男人四十一頭家)

Source: CLSA Asia-Pacific Markets

Figure 7

Cold Blood Warm Heart (天地男兒)

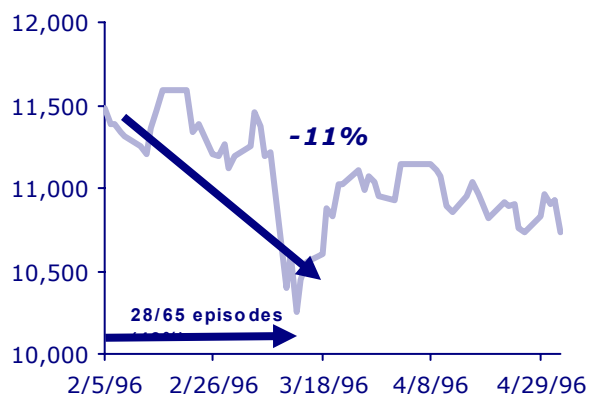


Figure 8

Legend of Yung Ching (江湖奇俠傳)

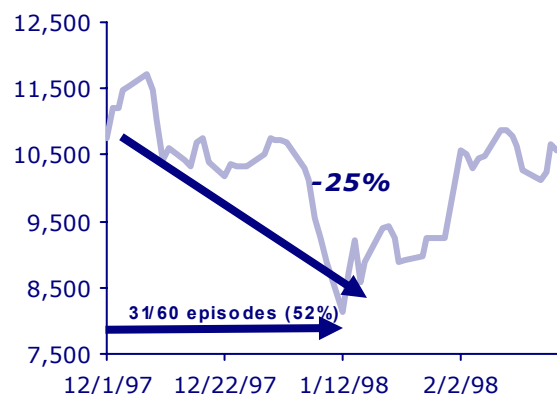


Figure 9

Lord of Imprisonment (神劍萬里追)

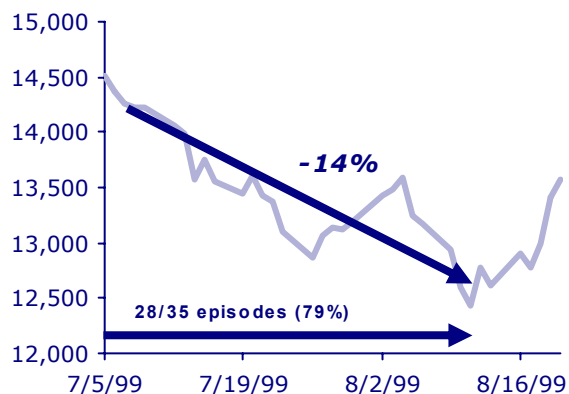


Figure 10

Divine Retribution (世紀之戰)

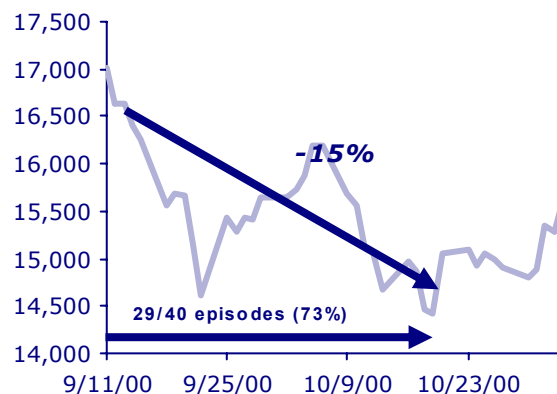


Figure 11

The Driving Power (非常外父)

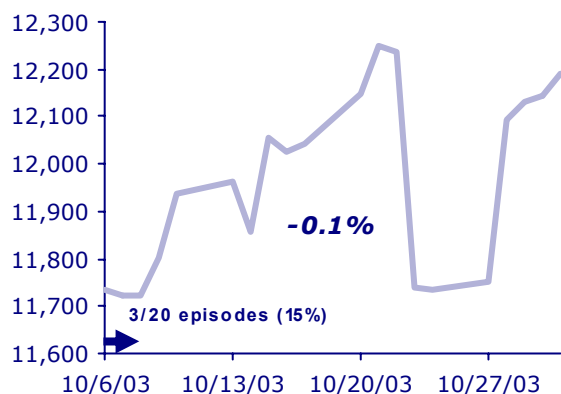
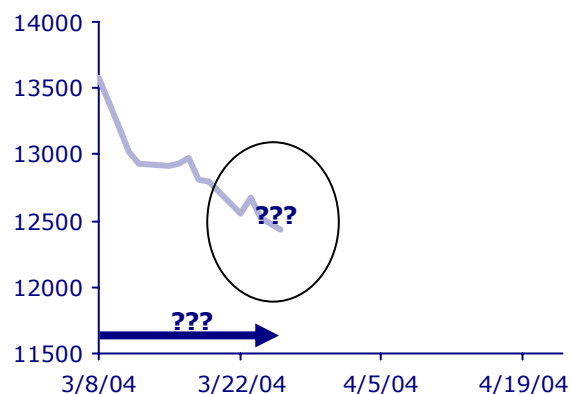


Figure 12

Blade Heart (血薦軒轅)



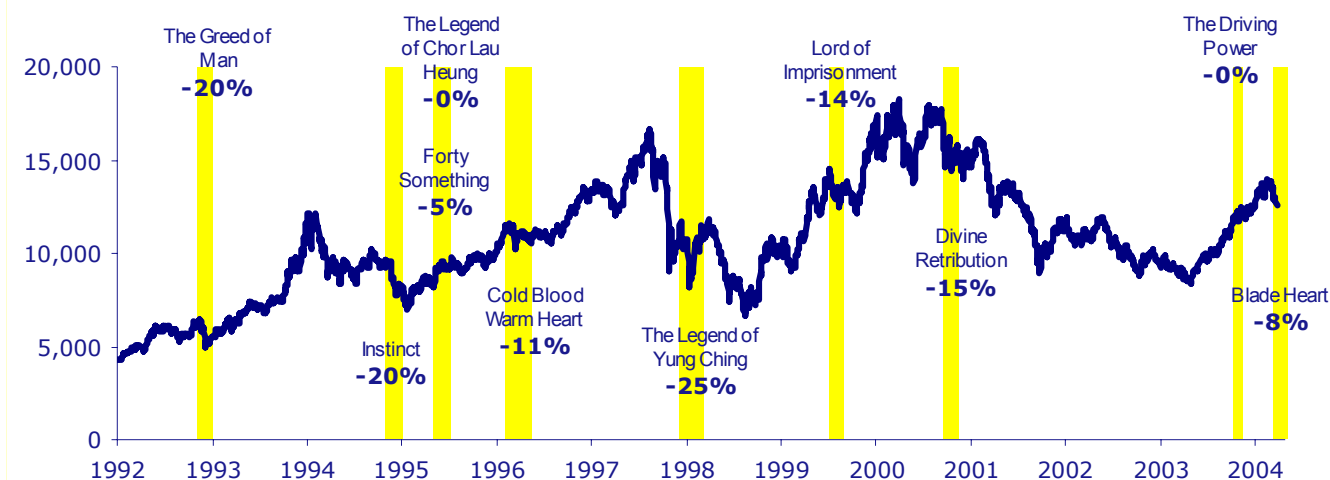
Source: CLSA Asia-Pacific Markets

What is Adam suggesting?

We have checked with TVB that there are 37 episodes of *Blade Heart*, suggesting that the series will end on 25 April. Fortunately, we do not have to wait another four weeks for Adam's effect to fade out. *Blade Heart* was first on TV on March 8. If the market follows the usual patterns of Adam Cheng Effect to rebound halfway to two-thirds of the way through the series, the market would hit the bottom sometime from 1-7 April 2004. Historically, the three-month return after market bottom was from 5% to 40%, or an average of 15% (Figure 14). Isn't it a good buying opportunity?

Figure 13

HSI performance



Source: CLSA Asia-Pacific Markets

Figure 14

Subsequent market performance after the shows



Source: TVB.com

TV Series	In Chinese	Maximum HSI decline during the series (%)	Subsequent HSI performance (%)		
			1M	3M	6M
The Greed of Man	大時代	-20.1	9.2	29.3	43.7
Instinct	笑看風雲	-20.1	-3.8	5.2	18.3
The Legend of Chor Lau Heung	香帥傳奇	-0.2	16.4	14.6	18.7
Forty Something	男人四十一頭家	-4.9	7.0	5.3	9.0
Cold Blood Warm Heart	天地男兒	-10.8	6.8	6.0	10.9
Legend of Yung Ching	江湖奇傳	-24.5	30.8	39.7	-0.3
Lord of Imprisonment	神劍萬里追	-14.3	11.4	13.4	39.7
Divine Retribution	世紀之戰	-15.2	6.4	10.5	-6.1
The Driving Power	非常外父	-0.1	3.7	14.2	???
Average =		-12.2	9.8	15.3	16.8
Blade Heart	血薦軒轅	???	???	???	???

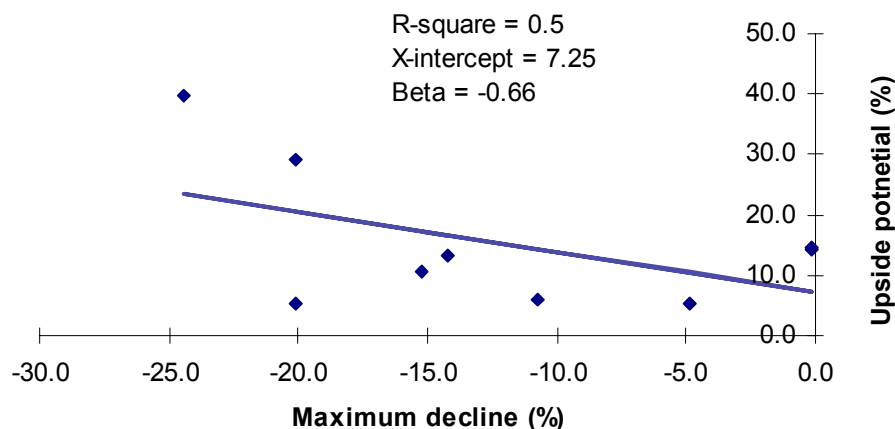
Source: CLSA Asia-Pacific Markets

We have done a regression analysis on the three-month market upside potential given particular percentage declines of the HSI. The potential standard error could be big given the small sample size of only nine. Nevertheless, we have still worked out an empirical relationship for the sake of fun.

$$\% \text{ Rebound} = 0.66 \times (\text{max \% decline during the show}) + 7.25\%$$

Figure 15

Regression analysis

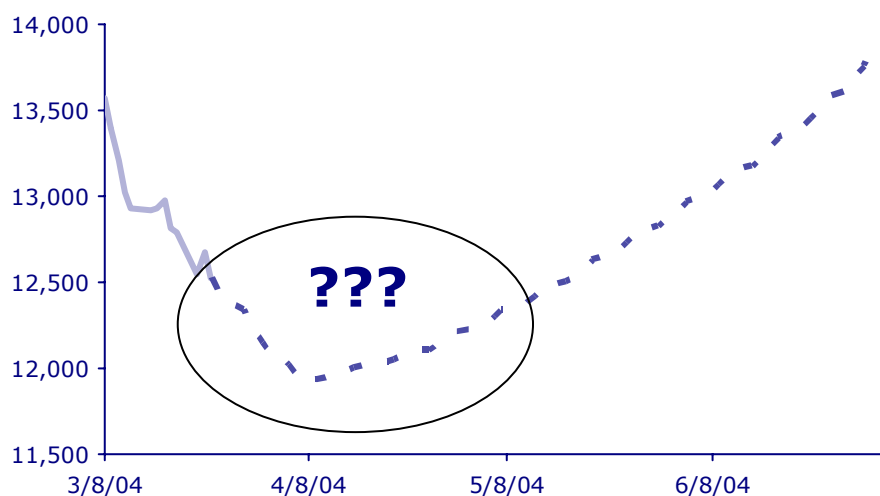


Source: CLSA Asia-Pacific Markets

Given the average maximum decline of 12.2%, our analysis implies a 15.5% three-month return after the market hits the bottom. To use the above formula to work out the potential market upside during the rebound, we first look CLSA's view on the market:

Figure 16

Adam's prediction



It is CLSA Head of Hong Kong Research Amar Gill's (who was not aware of Adam Cheng Effect) view that the current market weakness is only a healthy correction after a 5,700-point rally. Strong support is seen at around 12,000. On the upside, a 5% earnings yield for the market can be justified on an 8.5% cost of equity and 3.5% long-term growth, which would give a year-end target of 15,000.

CLSA Global Technical Strategist Chris Roberts is targeting 11,600 as the bottom of the correction – the approximate Fibonacci 385 retracement of the 8,332-14,058 advance. Following the setback, another rally phase should take the HSI up to the 16,000+ area to complete the cyclical bull market.

HSI heading to 13,550 in early July?

The HSI closed at 13,574 when the series *Blade Heart* began on March 8. If we take Chris' target of 11,600 as the bottom of the correction, or a 14.5% decline, the Adam Cheng Effect formula suggests that:

$$\text{The average rebound} = 0.66 \times 14.5\% + 7.25\% = 16.8\%$$

This translates to a **target of rebound of 13,550**. That is, if the Adam Cheng Effect follows the usual pattern this time, **the market should bottom at 11,600 sometime from 1-7 April 2004, with a three-month rebound target of 16.8% to 13,550.**

As we see the rebound could be as strong as 44% during the classic show of *The Greed of Man* in 1992 (Figure 14). If it repeats, the Effect would send the HSI to $11,600 \times 1.44 = 16,704$, which is close to Chris' target of 16,000+ and even surpasses Amar's target of 15,000.

Note: In the interests of timeliness, this document was not edited.

Key to investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = outperform by 0-10%; **U-PF** = underperform by 0-10%; **SELL** = underperform by >10%. Performance is defined as 12-month total return (including dividends).

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