

Look beyond the gloom and doom

Crises are some of the best times to invest in so make full use of opportunities that avail themselves in a challenging market

THERE is hardly a time when the investment climate is free of geo-political issues, inflation, deflation or bubbles. The current situation is no different. The key differentiating factor lies in our focus – What do we see and how do we see?

Amid all the doom and gloom, most will focus on the bad news and on how much they are losing on their investment. However, if we can see beyond the negative news and focus on what investment vehicles can benefit from the sub-prime, credit crisis, high oil price and high inflation, we may be able to take advantage of the situation.

Just in the past 30 years, we have experienced several seemingly disastrous events that rocked the stock markets.

- ◆ 1979-1982: High oil price and third world debt
- ◆ 1985-1987: US stock market and real estate bubble
- ◆ 1990: Japanese stock market and property bubble
- ◆ 1994-1995: Mexico crisis
- ◆ 1997-1998: Asia currency crisis
- ◆ 2000-2001: Technology bubble
- ◆ 2003: Sars
- ◆ 2007-2008: Sub-prime, credit crisis and high inflation

The best known of these crises is the 1987 stock market crash, now infamously known as Black Monday, which shook the world's financial markets, and affected markets at their very core. But, today, we could hardly see the impact of that event. (See chart below.) Both investors and economies have recovered and prospered since then and have gone on to face and overcome new crises.

Still, the investment environment is getting more challenging by the day. Investors are being bombarded by conflicting news, both on the negative and positive aspects of the market.

Currently, most if not all market research reports view the market through

the narrow perspective of the equity and sometimes bond markets. These are just two out of numerous asset classes in the financial marketplace.

Whether the market is positive or negative is conditioned by economic, financial or political factors affecting equities. Viewing through such narrow lenses, the current inflationary trend and credit crisis mean only one thing: the market is going south, so it is negative.

The impact from the news flow is confusion and there is a tendency to do nothing. With inflation running at 6-7 per cent, doing nothing is a recipe for disaster. Therefore, we need to address some important questions an investor may have.

What are the global fundamentals suggesting?

Are there any asset classes or financial instruments that will do well in the current environment?

What should we be invested in?

What are the risks in investment today? In every market condition, there will be asset classes or regions that still perform well. It is time to get out of the equities-based mindset, which is limiting our options to equities and bonds!

Look carefully and you will see opportunities. We have inflation because of rising oil prices and commodity prices. So buy up funds that invest in these asset classes. Buy commodities funds which help you hedge against inflation. Buy bonds/bond funds from countries that will benefit from an inflationary environment and/or commodity boom (like Australian Dollar bond fund). Buy into hedged funds (such as those offered by the likes of John Paulson) that take advantage of the credit markets crisis. Buy market-neutral strategy funds, where you can find offerings from various hedge fund managers.

Taking a leaf from history, crises are some of the best times to invest in. Let's look at some major league global crises: Pearl Harbour attack; Cuban Missile crisis; Black Monday; Kuwait invasion and the

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World Trade Center bombing (Sept 11 attack). An investor would have seen his investment grow between 10-65 per cent over a three-year period had he invested in the US S&P 500 on the day these events took place.

Bear in mind that all these events shook the world in terms of economic fundamentals and sentiment. By comparison, our problems today are not as bad. At the worst, we should let a few big financial institutions go under and the world may be a better place.

Are there risks in investment today? Definitely. And you can be sure there will be risks next month or next year. One of the biggest risks is inflation in energy and commodities.

But why not turn the risk into an oppor-

tunity? If you have an investment horizon of at least 3 to 5 years, you could consider investing in tranches in some of the asset classes or regions that offer opportunities. In the current environment of high inflation and low deposit rates, equities and commodities remain the clear choices to beat inflation.

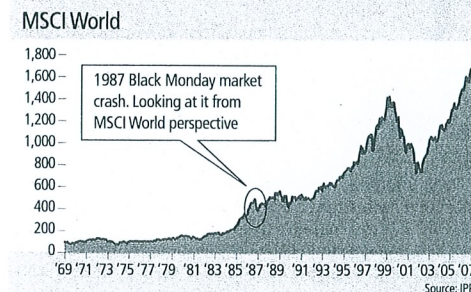
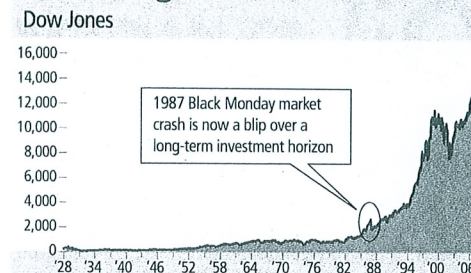
Focus on investment themes that are likely to do well in these shaky times – commodities, Middle East, BRIC, emerging markets, including Asia. High-yielding or commodity-backed currencies such as the Australian dollar could also be considered as part of your investments allocation.

Focus on long-term investment horizons. The financial markets have their own self-healing ability. Countries and financial markets almost always emerge more transparent, better regulated and stronger after each crisis. Governments, regulators, market players have to do so in order to regain confidence from investors.

What we see and the way we see things will impact our investment decisions. Be wise and see beyond the immediate gloom. Make use of the opportunities that present themselves in every challenging environment.

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Think long-term investment



Source: IPP