

Where are the Investment Hot Spots?

Sophisticated investors thrive on high returns, successful strategies, and superior professional advice. Bank Julius Baer, the largest dedicated wealth manager in Switzerland, only handles clients who have a minimum of US\$5million to invest with them. Dr. V. Anantha-Nageswaran, Bank Julius Baer (Singapore) Ltd's Managing Director and Head of Investment Research, Asia Pacific & Middle East shares interesting insights with *MillionaireAsia*. Text by **Victoria Wright** and **Brian Yim**.

DR. V. ANANTHA-NAGESWARAN:
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CAPTURED IN THE PRICE? 2. IS IT
A RISK OR AN OPPORTUNITY?



Asian Equities

Investors should take a closer look at Thailand and Taiwan, according to Dr. V. Anantha-Nageswaran. Bank Julius Baer (Singapore) Ltd's Managing Director and Head of Investment Research, Asia Pacific & Middle East.

Thailand recently underwent a major correction in December 2006. Despite its recent rally, price to book value, dividend levels and other financial factors are now attractive. The current monetary policy setting in Thailand is accommodative and there is scope to lower interest rates further as well, which makes it an attractive market for investment. Taiwan has started to liberalise its financial sector. The technology cycle has bottomed out, US investment spending looks like it is picking up again and election time is always a very positive time for equities. In addition, extremely low real interest rates and an undervalued currency make Taiwan equities doubly attractive.

While Thailand and Taiwan are considered positive markets to invest in, the following countries have some key issues keeping aggressive investment decisions at bay. India and China both have valuation concerns. Consequently, the bank is also completely avoiding the local markets of India and China even though they may be good long-term growth stories. Singapore and Malaysian stocks are not attractive at the index level but some specific stocks are. Therefore, Bank Julius Baer is avoiding these markets at the aggregate level while opting for selective investment opportunities in specific sectors and stocks.

In Japan, the economic growth momentum has cooled in general. This, in turn, has caused the stock market to underperform other Asian markets. Consequently, allocation to Japan has been trimmed for the time-being.

From a long term perspective, in the opinion of Dr. Anantha-Nageswaran, the Singapore dollar and Malaysian ringgitt are attractive currencies to hold especially for international investors who are dollar-based or Swiss franc-based.

Fixed Income

With regard to fixed income, emerging market bonds are fully valued. Emerging markets bond spreads are very tight because of recent strong

growth, low interest rates in the developed world and high risk appetite on the part of investors. There is no real value there. We are basically focusing on just 2 or 3 domestic currency papers in Asia for instance those from Indonesia while our colleagues in Zurich like to invest in domestic currency paper like the Mexican Peso and Brazilian Real.

Commodities

Crude oil will remain an important asset class for some time to come because in the medium term, supply is tight and demand is still looking good because global growth is strong. "Having oil in the portfolio is also a good hedge because if oil prices go up too much, international financial markets will be affected. So, we are very focused on oil and soft commodities. We have this Bank Julius Baer "breakfast basket" of corn, wheat, sugar and coffee and we also have exposure to Jim Rogers International Commodity Index pertaining to soft commodities which was launched by Bank Julius Baer last year (Jim Rogers was a former partner of George Soros).

Precious Metals

Precious metals are also considered imperative in diversifying investment portfolios. As prices go down, investors should begin to accumulate precious metals like gold and silver, if they have not done so already. Investment in sustainable development themes like water and uranium for alternative energy and cleaner fuels are also a key part of the Bank Julius Baer investment strategy.

Real Estate Funds

Recently, Bank Julius Baer developed a global real estate theme. Since the real estate market is viewed as quite advanced in Asia and perhaps declining in America, the bank has chosen to focus more on Europe. Since the real estate markets in various European countries are in different stages of the cycle, product management has been outsourced to specialist real estate firms in Europe, Asia and the America, but active participation of Bank Julius Baer is maintained. It is not possible for a single individual to conduct research to invest in an asset class such as real estate and that too across continents which is why investing with a bank like Julius Baer is beneficial.

As for Singapore's real estate market, which is part of the Asia Real Estate Fund, it "is maybe advanced, but not necessarily in imminent threat of a correction or crash because global growth looks good and Singapore's government's long term target of raising the population to 6.5 million and further on to 8.5 million and aspirations of a global city, the Integrated Resorts etc. further underpin the local market."

"NEWO" Investment Theme

Bank Julius Baer also recently launched an innovative and visionary product called the "New Economic World Order Mandate" – "NEWO". It takes a long term perspective with the belief that as the global economy keeps expanding in the coming years, the bulk of GDP would come from developing countries such as China, India, Brazil and Russia. Companies from these countries that have potential to be world-class players are just the kind of stocks that Bank Julius Baer experts would focus on.

Risks and Opportunities

When dealing with risks, investors must ask themselves two important questions:

1. Is there new information that is not yet captured in the price? The answer is not cognitive, but subjective. We have to ask ourselves that and whether or not we believe there are certain inferences the rest of the market has not yet drawn," explained Dr. Anantha-Nageswaran.

2. Is it a risk or an opportunity? A model portfolio is created based on the answers to these questions and forecast of financial variables including interest rates, currencies, etc. After analysing risk and financial variables, the bank constructs an asset allocation and then a model portfolio with specific securities, funds, or assets that they would recommend. In general, the model portfolio is a balanced portfolio with exposure to various asset classes for a client with a moderate risk appetite. Taking that as the basis, personalised portfolios are created by making the bank's assumptions 100 percent transparent to the client, and in turn advising clients based on their existing overall exposure to financial markets and appetite for risk.

However, Dr. Anantha-Nageswaran says, "Asset allocation is not systematic; it is discretionary." This is where Bank Julius Baer's Wealth Engineering team based in Switzerland comes into the picture. The team is comprised of highly trained mathematicians. In fact, the team members have taken turns to stay in Asia for few weeks at a stretch helping private bankers in the region. Once a model portfolio is constructed based on a client's risk level, the Wealth Engineering team compares the portfolio to their optimal portfolio using Portfolio Optimisation tools. An optimal portfolio is the most efficient combination – in terms of return and standard deviation – of risky and risk-free assets. Whether or not the correct portfolio selection was made for the client can be ascertained from the portfolio optimisation exercise. Accordingly, the portfolio can be repositioned either for potentially higher expected return for a given level of risk or for lower risk for a given level of expected return. ■

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He completed his undergraduate education with a Bachelor's degree in Commerce from the American college in Madurai in 1983. He graduated with a Post-Graduate Diploma in Management from the internationally reputed Indian Institute of Management, Ahmedabad in 1983. Dr. Anantha-Nageswaran earned his doctorate in 1994 from the University of Massachusetts in Amherst after writing his doctoral thesis on the empirical behaviour of exchange rates. He has previously worked with Union Bank of Switzerland (UBS) as a Currency Economist and as the head of Investment Consulting in Credit Suisse Private Banking. In July 2006, he joined Bank Julius Baer (Singapore) Ltd. Bank Julius Baer is a Swiss financial institution and manages both institutional money and offers private banking services to high net worth individuals globally.