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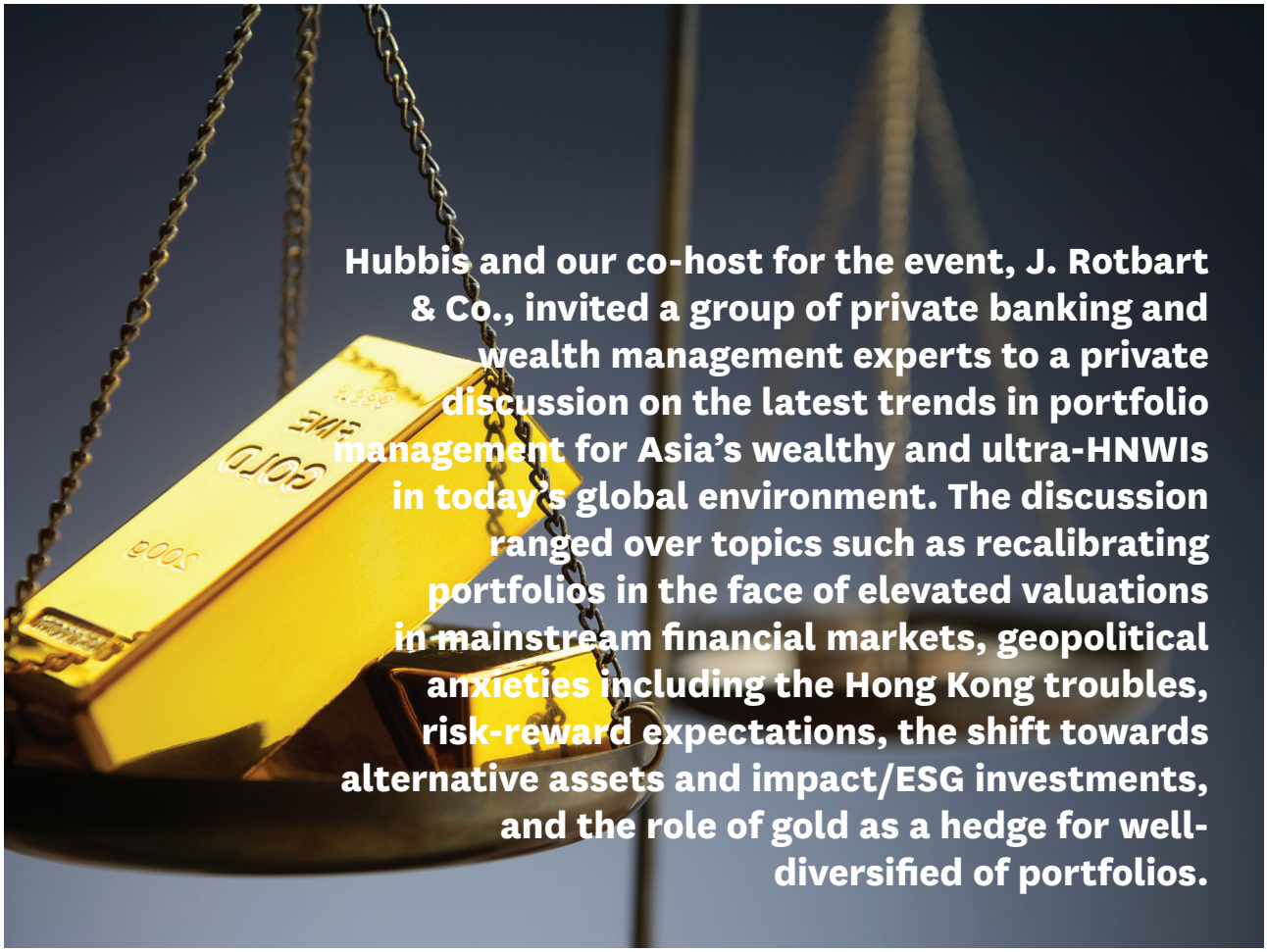
Building Portfolios: Diversification, Wealth Protection, Risk Management and Gold



Hubbis and our co-host for the event, J. Rotbart & Co., invited a group of private banking and wealth management experts to a private discussion on the latest trends in portfolio management for Asia's wealthy and ultra-HNWIs in today's global environment. The discussion ranged over topics such as recalibrating portfolios in the face of elevated valuations in mainstream financial markets, geopolitical anxieties including the Hong Kong troubles, risk-reward expectations, the shift towards alternative assets and impact/ESG investments, and the role of gold as a hedge for well-diversified of portfolios.

The key takeaways

Recalibrate, but stay invested

Experts advised diversification of portfolios, regular re-calibration, but, importantly, cautioned that investors should stay invested, despite high valuations in global equities and fixed income and ongoing geopolitical anxieties.

Patience is a virtue

One of the core pieces of advice in the current climes is to be patient, to make strategic asset allocation, and then to stay the course. Timing the market is nigh on impossible, so look to the longer-term, with a three to five-year perspective.

Understand the risk profile

No wealth manager or asset manager can advise the client unless he or she understands that client and their risk appetite. Only then can the adviser position the portfolio appropriately.

Geopolitics concerns start in Asia

With the discussion taking place within Asia, it was natural that the troubles of Hong Kong were discussed, with the group agreeing that there is evidently some flight of assets from Hong Kong as global investors vote their concerns with their wallets.

Singapore - a magnet for HNWIs

Extending that line of discussion further, guests noted how well Singapore is doing as a stable environment with excellent regulation, helping to act as a magnet for investors, family offices and asset flows of the wealthy and ultra-rich.

Planning your future

Singapore is also drawing global investors in with offers of residence as part of their incentive packages. This tailors neatly with the drive amongst wealth Asian families to organise alternative residence and citizenship-by-investment options around the globe.

Buy and hold gold

Experts focused on the immense value of holding physical gold for portfolio diversification, as a medium to long-term store of value and as a hedge against volatility in the public financial markets.

Gold - keep it outside the global financial system

Physical gold should be bought and held outside the mainstream financial institutions if investors want to steer clear of potential troubles in the global financial environment. Store gold outside the banks, in professional vaults, to avoid financial counterparty risks.

Liquid and tradeable

Physical gold is remarkably liquid and can be settled for cash in hours, unlike some of the mainstream financial markets, some of which still work on T+2 or even worse.

Global support

Central banks around the world have also been keen buyers of gold in the past 18 months, especially China, Turkey, Russia and Poland, as well as a host of other countries. Many central banks showed interest in continuing to accumulate gold in the near future.

Keep accurate records

Clients who buy gold and the firms that they deal with must keep accurate records. Although gold is not subject to many of the regulations covering mainstream financial markets, when investors come to sell, perhaps many years later, they will need to account for the original deals and the original prices, for taxation purposes.

Trading alternatives

Experts advised that aside from gold, there is considerable and continually growing interest in the private markets, such as private equity, private debt, hedge funds, or specialist funds focused on non-correlated sectors, for example, trade finance funds.

JOSHUA ROTBART, CHIEF EXECUTIVE OFFICER OF SINGAPORE- AND HONG KONG-based precious metals firm J. Rotbart & Co., opened the gathering by introducing himself, and his brother, a partner in the firm, and who was also in attendance. "We work with your typical high net worth clients here in the region," he began, "so thank you all for coming today, this is valuable intelligence for us to hear insights on latest trends amongst portfolio management advisories and client preferences."

Be patient

The discussion in earnest began with the head of a boutique wealth management firm remarking that their first piece of advice in the current climes is to be patient, to make strategic asset allocation, and then to stay the course.

"Don't try to time the market, simply make tactical adjustments along the way," he said. "We have been de-risking portfolios, and in fact, none of our clients has leverage in the portfolio, which is quite exceptional in this part of the world. In general terms, we are slightly underweight equity, ditto fixed income, and we have more cash than we normally have. Our time horizon is more 5 to 10 years than months and short-term. Finally, my position is to understand the client first and then tailor advice to the risk profile of that client or that family."

For a discussion taking place in Asia, the conversation naturally turned to the troubles in Hong Kong. "We are seeing an influx of business into Singapore coming from Hong Kong and from Europe into Asia," said one attendee. "We are indeed seeing who a while ago thought about Hong Kong, we are not seeing anyone really booking in Hong Kong, and we are seeing quite a few of the trust companies from Hong Kong coming to see us down here [in Singapore]. Hong Kong is in a difficult position, and obviously, Singapore is a very strong and stable jurisdiction. However, we have also received directives from the Singapore authorities not to essentially try to pull business over from Hong Kong at this time, which is a fair and sensible approach."

Singapore – a magnet for HNWIs

Extending that line of discussion further, a guest remarked that Singapore was currently winning

Hubbis - J. Rotbart roundtable in Singapore

clients over in the family office space, and related structures arena, including trusts, funds and other vehicles. "The authorities have in recent years offered many incentives, so now people realise that they don't need some BVI or Cayman structure, they can park those assets in a Singapore vehicle and obtain similar benefits, provided they meet certain conditions. This is the onshore trend we are witnessing."

"One area that Singapore has not addressed properly," came another voice, "is the Foundation, which is increasingly sought after by the super-rich families with literally billions of dollars."

"Another concern we hear these days is the spectre of a Corbyn-led government in the UK and what that might mean for the Channel Islands, which are an easy target for him. It is a worry."

"One area that Singapore has not addressed properly," came another voice, "is the Foundation, which is increasingly sought after by the super-rich families with literally billions of dollars."

Planning your future

"This all comes back to residence and citizenship planning," said a migration investment expert. "Ultra HNW families don't plan for the next 10 or 20 years, they plan for 50 or 100 years. So, in terms of Asia, a lot of the big families here will pick one or two family members and position themselves around the globe, in Europe, Australia, Canada, the US, in anticipation. Although we are in the world of investment migration, the reality is very few of our clients actually move, but they have the option to do so, and we are seeing greater interest now in Europe, so Portugal, Cyprus, Italy and other countries within the EU. They then have the option to move there and change their effective tax residency, but that is not the motivation within Asia."

Gold outperforms

Turning the focus more directly on gold, an expert remarked that the gold price was largely flat for six years until mid to late 2018 when suddenly the financial markets went down and gold rose sharply.

"Gold is an emotional commodity," he commented, "but remember that gold over a 50-year period has performed well in comparison to mainstream financial assets and almost all major fiat currencies. And we recommend gold in physical form as it is outside the global financial system; it is confidential, it is moveable, it is not subject to CRS or other regulation, it is like an insurance policy and offers flexibility and diversification. Moreover, it is outside the paper markets, so cannot be shut down by the authorities, as we have seen, for example, in a case such as the regulators or funds stopping redemptions for whatever reason. Gold is also very liquid and easily tradable in large numbers. In fact, you can get your money back in a sale, far faster than for mainstream financial securities. We wire the money within two hours."

JOSHUA ROTBART
J. Rotbart & Co.

He added that central banks around the world have also been keen buyers in the past 18 months, especially China, Turkey, Poland and some other countries. And with physical gold held outside the banks, in professional vaults, there is no financial counterparty risk."

Keeping accurate records

A guest raised a question relating to the impact of a sale of gold after a number of years, which might trigger questions from the tax authorities when the money goes back into cash in an account.

"Our clients who buy through us must be identified at the outset, and the money must come from a bank account that we can see is indeed owned by the purchaser," came the reply, "and the gold is certified, so there is a clear trail of records throughout. From our side, we at least make sure everything is as official as that can be, and accountable as it can be."

A guest shifted the discussion to cryptocurrencies, explaining that he offered a solution that can convert cryptos to gold and vice versa. "The similarities are that

ZVIKA ROTBART
J. Rotbart & Co.

JOSHUA ROTBART
J. Rotbart & Co.

cryptocurrencies are decentralised currencies, rather like gold, and there are no counterparties. The way we work on crypto to gold, we have the refiner on the one side and the OTC crypto traders on the other side, so clients can lock in the price at the same time. But we are concerned about the general lack of proper regulation in the cryptos markets."

Another attendee turned the discussion back to gold, noting that his bank offers finance on gold, allowing the clients comfort that they can release cash potentially without needing to actually sell their gold holdings. "Clients also see gold as a currency play and currency diversification, depending on what their base currency is," he added.

Diversification rules

A guest remarked that gold should be in every portfolio, for diversification and risk protection. "Of course, the amount held is related to the client's risk profile, and whether it is a tactical holding, or really for the rainy days in which case it must be physical gold outside the financial system. But if tactical, we also use gold ETFs."

Another expert in their field diversified the discussion to what he termed 'uncorrelated reinsured yield' solutions for his clients. "As people have been de-risking their portfolios," he explained, "we wanted to create some kind of income or yield for our clients, so, for example, we created an agricultural trade finance fund, which is completely uncorrelated, and theoretically recession-proof, as there is always a global need to buy food. We source out of Brazil and sell into Asia, we are non-GMO focussed, so very high-quality human consumption, and then we reinsured with AIG, so the principal and coupon are insured from a portfolio perspective, and we end up with a 7% per annum coupon."

Trading alternatives

"We also like trade finance," said another wealth management expert. "This is a solid asset class and solid returns with low volatility. We also look for uncorrelated assets, and our focus has also been on private markets, private equity and private debt. This is not the area for smaller clients with a few million, it is really for the large clients, the later families who have the capacity. Many of these are somewhat disillusioned with the financial markets, and maybe with their financial advisers and fund managers as well. The current outlook for returns in the public market obviously in equity and fixed income is not fantastic for the next few years, so even though PE, of course, takes longer than two to three years, clients are increasingly willing to lock up some of that money and wait. We think more and more people will look for more investments outside the traditional public markets."

Physical for the long-term, paper gold for tactical trades

Another guest asked about gold mining stocks and securities. "It is an exposure to the gold industry,

not directly to gold itself," came an answer. "In some senses, there can differences in good management and bad management that can make a difference between a stock, so we really try to focus on the direct access because we think all the rest, even ETFs, are peripheral to gold, so you can have a lot of exposure, but then you will not necessarily enjoy the same effect when the gold price goes up, as that doesn't directly mean your equities are going up, and vice versa. So you may see mining companies doing very well, and gold is doing nothing, which we saw in those six years of price going sideways."

Where next?

The final words were focused on the gold price and outlook. "About half of our peers have been saying for some years now that gold will reach USD5000 an ounce, but we have been far more conservative at around the current levels, and I personally think it will end up about USD1500 at the end of 2019. As I mentioned, we had six years of sideways movement, so that comes to about 6% a year appreciation over the past seven-plus years, so we hope to achieve that or more looking ahead."

"We are bullish on the long term," he continued, "but I don't think gold will rocket up to USD3000 or some of these very optimistic figures, and from our perspective we expect solid growth, and we are not in the camp of global crisis, or doomsday scenarios, we simply believe that gold is a great hold in any weather and will do well over the longer-term." ■

J. Rotbart & Co - Passionate about Gold and Conservative Optimistic on Gold Prices

Joshua Rotbart, Founder and CEO of precious metals firm J. Rotbart & Co. is passionate about his chosen profession. He says gold is an "emotional commodity," a term he coined, as gold is something that people not only aspire to own but because it is also a store of value for investors, it has even more engaging and enduring qualities.

Rotbart sees himself as a "gold person, not a financial person" and believes that assessed from a historical perspective gold will always be valuable, and the longer an investor holds it, the more it will appreciate. He is not someone who is predicting a global financial debacle, or excessively optimistic, he simply believes gold is an excellent store and protector of value over the short-, medium- and long-term. For Asia's HNWIs, it is an ideal asset to help families retain their fortunes.

Rotbart reports that his Singapore and Hong Kong-based firm has for the past decade been helping individuals, companies and financial institutions buy, sell, transport and store physical metals such as gold, platinum, palladium and silver.

Rotbart clearly has an unwavering belief in the value of holding physical gold. He explains that as gold is non-correlated to mainstream financial assets, it can offer a hedge against inflation and currency depreciation, as well as against volatility in those mainstream liquid, tradeable public market securities. It can easily be bought, stored and insured outside the global financial system, it is highly liquid and, above all else, it has stood the test of the past several millennia as both a store and an enhancer of value.

Gold, he explains, offers long-term returns similar or even better than equities or bonds, and it is important for diversification purpose because when the markets go down, gold tends to go up. Gold, he noted, did not move much in 2018 until equity markets went down, since when it has risen more than 25% (at mid-September 2019 levels).

Physical gold, he notes, is not a financial product. "That means it can be held privately," he explains. "It can be held directly by the client, or at secure logistics storage facilities in different countries, and clients can then also have access to it. If clients sell, they can get same-day settlement as it is highly liquid."

He notes that the precious metals market is monitored by the London Bullion Market Association, which supervises the refiners, the logistics operators, and the entire precious metals ecosystem to ensure it is professional and sound. "As long as you stay within this ecosystem," he reports, "you are fine."

Asia - a region of "gold bugs"

He observes that Asians have long had a love affair with gold. "This region has been a region of gold bugs long before that term was coined," he observes. "Wherever you go in Asia, whether Thailand, China, Vietnam or other countries, people buy gold as a gift when a child is born, for cultural or religious ceremonies such as weddings, festivals and other special occasions. They like to buy gold jewellery when they have spare money."

Rotbart also reports that the precious metals investment industry has nowadays become highly professionalised in Asia, with an outstanding infrastructure of secure storage and logistics service providers, and insurance coverage, with specialists such as his firm that work in an entirely professional approach with clients who seek to buy, store and sell physical metals, especially gold bullion.

A professional industry

"We offer the professional level of services that investors must seek out for this type of purchase," he explains. "Clients can trade remotely, we work globally, we store gold in many top-flight locations, we offer a worldwide service across all time zones, and when clients call, we answer. We handle all logistics seamlessly, so the client can relax throughout the entire process. We are the one-stop gold-plated service provider."

Some do's and don'ts

Rotbart lists certain "do's" of buying gold. He advises clients to use a professional company that can provide professional services and storage. Make sure that insurance is in place, make sure there is an insurance policy on your gold, which is itself an insurance policy. Stick to the London Bullion Market Association ecosystem: refiners that are accepted by the market. Gold must be 24-carat investment grade (99.99% pure).

"Buy one-kilogram bars," he advises, "as these are the most acceptable in the market and avoid working with anyone in the market that might be less than 100% professional."

"When you store gold in secure logistics facilities," he added, "it is stored privately and away from cybersecurity risk. The risk of someone stealing from a secure storage location in Singapore or in Hong Kong and getting away with it is virtually zero, and if it did happen, it is fully insured."

A gilt-edged history

Rotbart then highlighted the ancient history and long "culture" of gold, which since its first discovery has been a standard of prosperity. Gold, he says, is tangible and in an age where privacy is dying, gold and other tangible assets retain some privacy.

Gold is also trusted, it is liquid, governments buy and hold it, especially these days; USA, Germany, Russia, Kazakhstan, Turkey, Poland and China. It is therefore still a core part of our global monetary system, while not being directly exposed to financial intermediaries. It can be cashed in virtually anywhere in the world. And it is highly liquid, as investors can, for example, easily trade USD50 million in a swift phone call, with funds in their bank accounts within a matter of hours, not days.

Gold is also excellent for wealth protection, as it is a stable earner with low volatility, Rotbart explained. "Gold appreciates over time and if you look at the volatility of gold compared to, for example, the S&P 500 Index, at the end of 1999 was at 1,458 and gold was at USD290 per ounce. In the beginning of September 2019 gold was at USD 1,529 / ozt while the S&P 500 was at 2,906. In that time,

gold was therefore up over 5 times in value, while the S&P had not even doubled. That is a remarkable outperformance. So, it is an excellent medium to long-term hold."

He also highlighted how USD35 cash in 1965 is equivalent to roughly USD300 today, inflation adjusted. "Well," Rotbart noted, "you can see how gold as a cash substitute performs far better than cash, as today's price around USD1400 is almost five times higher than the adjusted cash price."

Keeping stress levels down

"Since the US went off the gold standard, gold has been performing very much in line with both US stocks and emerging markets, and performs far better than cash," Rotbart elucidates.

"Moreover, if you look at how gold performs in times of market stress, it performs remarkably well when equity markets are going down, at times of global financial stress, so it provides the hedge, the cushion, for your clients to reduce volatility and manage their risk. And as it is separate to the global banking and financial system, there is no counterparty risk. Accordingly, it is an excellent tool for wealth protection. In short, one can see it as an investment and as an insurance policy."

Buy the physical

He moved on to why HNWIs should buy physical rather than paper gold. "Even the best gold ETFs are not backed 100% with physical gold," he reported. "Even the very best ETFs, and I won't name names, are not fully backed by the physical asset, as they use derivatives and other instruments to maintain the daily fluctuations. We therefore strongly urge clients who want to do more than simply speculate on gold prices to buy physical for medium to long-term holdings. If the ETFs had to be redeemed, they simply would not have enough gold to cover that."

As to how much of any portfolio investors should hold in physical gold, Rotbart cites Ray Dalio, Founder of investment firm Bridgewater Associates, who stated: "...Most people should have roughly 10% of their assets in gold, not only as a good, long-term investment, but also for its effectiveness in diversifying the other 90% of assets people hold..."

Rotbart strategises on why gold is an excellent tool for portfolio diversification. "As a guide, we believe most of our clients hold between 3% to 10% of their assets in physical metals; gold is considered a very good hedge, because historically when the market falls gold will usually fare better."

Adding gold to the wealth manager's suite

Rotbart closes his comments with a word on why wealth management experts, such as those listening to his talk, should include gold in the suite of products and ideas for their clients.

"You are bringing in non-mainstream concepts and an additional creative solution," he remarks. "Your clients will appreciate when you offer something that is not necessarily linked to your institution, you can work safely and efficiently with professional firms such as ours, and you can make money from it, as there are transaction fees, storage fees and other recurring fees."