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Investment ideas for Asia's wealth management clients

Investment experts at this fifth panel discussion of the Hubbis Investment Solutions Forum in Singapore all agreed that 2018 was set to remain volatile but that there were plentiful investment opportunities for their wealth clients to focus on.

These were the topics discussed:

- *What are the main investment themes and the products that will be most relevant in 2H?*
- *How will you help clients shift mindset, investing style and portfolio holdings as the market transitions to a more volatile phase?*
- *Risks and opportunities for 2H 2018?*
- *What's your view on China?*
- *What Asian Markets offer the best value?*
- *What's your outlook for interest rates and FX?*
- *What is your current thinking about the role of fixed income and credit in HNW / UHNW clients' portfolios?*
- *What are the prospects for US dollar interest rates in the coming 12 months?*
- *Equity - where is best? Where is worst?*

PANEL SPEAKERS

- **Leon Mirochnik**, Head of Business Development, Enhanced Investment Products
- **Rainer Michael Preiss,** Executive Director, Investment Advisory, Taurus Wealth Advisors
- **Tony Wong**, Head of Intermediary Sales, CSOP Asset Management
- **Tuck Meng Yee,** Partner, JRT Partners
- **Ranjiv Raman,** Head of Investments & Treasury - Singapore, Schroders Wealth Management
- **Xavier Burkhardt,** Executive Director, Leonteq Securities

THE PANEL OF EXPERTS, INCLUDING SOME from the fields of investment product manufacture and gatekeeping, began with a look back at the choices made in the last year. A general consensus was that the time of a rising tide of market indices that floats almost all stock prices might be over.

Diversification away from passive investment strategies such as exchange traded funds (ETFs) has been increasingly popular in these changing conditions, agreed panellists. The more uncertain market conditions have been encouraging a tendency towards active strategies instead. "Active managers

THE MORE UNCERTAIN MARKET CONDITIONS HAVE BEEN ENCOURAGING A TENDENCY TOWARDS ACTIVE STRATEGIES INSTEAD.

tend to use less constrained strategies, and we are headed towards a stock-pickers market," explained one expert. Future returns are potentially entering a difficult period due to the unwinding of the quantitative easing (QE) trade, coupled with threatening geopolitical risk factors.

Investors now need to consider practising a 'bottom-up' strategy, some panellists suggested. This means scrutinising individual stocks rather than the industry as a whole, as there will always be certain companies that successfully ride the waves of more choppy waters.

Protection strategy at the forefront

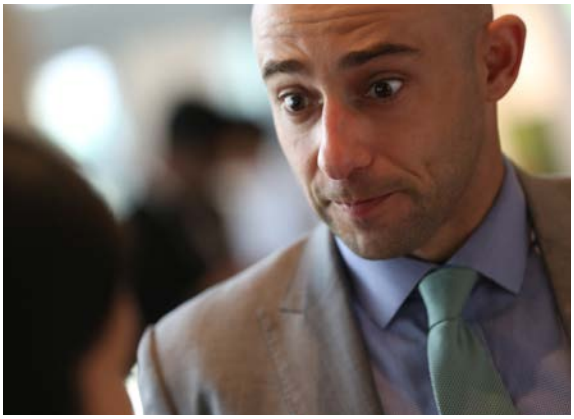
Panellists then progressed to discuss specific strategies that are helpful for investors at this moment in time.

"The power of the QE-driven liquidity wave has been underestimated," warned an expert, "and as that reverses we are now entering into a period of weakening markets and more uncertain short-term investment conditions."

Buying in a crowded marketplace has risks, a panellist explained. "Stocking up on what everyone else is buying is an amateurish strategy - when the ship goes down, you'll be on board along with everyone else." Instead, panellists proposed that sensible hedging strategies can offset capital market dislocations. "It is important to have something protecting the portfolio in volatile times," elucidated an attendee.

There are of course equity markets across Asia that have performed particularly well over the last 12 months. "Does that mean that investors should now avoid them or are there good long-term growth opportunities in those types of markets?" asked a panellist.

"Emerging markets as an asset class outperformed last year," commented an expert. Those markets went up on average 33% versus 23% for Europe and 19% for the US. This may be because of higher interest rates and a stronger dollar. However, panellists warned that investors must be nimble as these



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emerging markets may not continue in their upward trajectory and due to lower liquidity can turn rapidly in a down phase.

China – a complicated but expanding market

China is both vast and full of potential for global investors, both in fixed income and equities. Investing in China is a complicated business, conceded panellists. It helps to have a local expert to guide investors through the convoluted processes.

"Our advantage is how well we understand China," explained an expert on the China market. "It takes a while for foreigners to understand how new legislation or reforms will affect the markets, but we can get to grips with it much quicker. This puts us ahead of the trends compared with foreign investors."

A recent development in China known as the Stock Connect scheme has brought much excitement to the investing community. The scheme connects the Chinese and Hong Kong stock markets, finally allowing investors in China to buy stocks from Hong Kong.

The ETF Connect add-on also allows investors to buy ETFs in Hong Kong. This adds many more options for investors and allows them to get broader and also index exposure outside of the traditional individual stocks.

Suggestions for an upwards trajectory

When asked to recommend a stock, fund, country and sector to invest in in the coming months, panellists were wary of giving advice, although some did suggest avoiding products that were being hyped-up as they rarely perform as well as predicted. "Instead," as one expert humorously phrased it, "buying things which are utterly out of favour sometimes has merit."

Popular sectors suggested by panellists included healthcare and education. "Chinese parents are spending enormous sums of money to educate their children," remarked an expert, "and in Asia we have world class healthcare available in Asia, bringing in medical tourists from across the globe."

Another panellist suggested a smart beta approach known as a Growth at Reasonable Yield (GARY) trade.

TONY WONG
CSOP Asset Management

RANJIV RAMAN
Schroders Wealth Management

"We look for growing companies in Asia with a more than 3% dividend," he elucidated. "They must have free cash flow, a low net debt profile and a three-year dividend track record at least."

Although gold seems to be slipping of favour, for a safe dependable option, panellists suggested leveraging a related class such as gold mining stocks or the gold exchange.

One sticking point that panellists were keen to share is that for structured products, maturities beyond one

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year are difficult to propose and sell. "Clients will stick to three months, six months, nine months when we do investment products, even capital protected," explained an expert.

Proceed with caution, fellow investors

So, what could potentially seriously derail the markets over the course of the year ahead? Panellists pondered this last question together.

"Quantitative easing is now switching to quantitative tightening, meaning rapidly decreasing liquidity within the global economy," elucidated a panellist. "Nobody knows how it will play out, but it seems to be increasing wealth disparity, particularly in the US. It may also bring more diversification, and less strategy constraints meaning that active managers can outperform in this new situation, whereas for the past five or more years active has underperformed.

"Blockchain and tech in general will increase in importance as the structure of the economy changes," predicted an expert. "It will become more increasingly critical to have some exposure to these new themes going forward."

However, overall, clients will still want to keep it simple, even if they are presented with innovative ideas. "In the end they will stick to what they are comfortable with," said an expert, concluding the discussion. ■

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TUCK MENG YEE
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