Seeking opportunities in times of uncertainty

Citi's Shrikant Bhat won't be surprised to see markets correct. In fact, he says he would welcome this window of investment opportunity, and advises customers to get prepared.

The demand for equities by investors amid a continued chase for yield suggests that, given the liquidity and the economic story, there is more room for the asset class to run.

Yet while nobody wants to rock the boat, if a correction happens, it isn't necessarily a bad thing.

This is according to Shrikant Bhat, managing director and regional head of investment product at Citi in Asia Pacific. As and when it doesn't happen, he believes it will provide an opportunity for those people on the sidelines to get in.

And at the same time, other – perhaps more cautious – investors can increase their exposure.

As a result, he embraces the potential of some type of drawdown as a healthy development overall.

SHAKY SIGNS

In Bhat's view, one reason to believe that a market correction might be on the horizon is based on the euphoria over technology stocks.

While the long-term story remains intact, he says there needs to be a much clearer view of what's a sustainable business model versus what's just 'technology'.

This partly stems from some investors not wanting to 'miss the boat' on the big technological revolution. But picking out the winners is obviously a challenge, adds Bhat.

At the same time, many investors have not sufficiently overcome their fears over the outlook for Europe as a whole. "There is still an overhang of Europe as a risky play, although we have seen over the last few quarters that, at a macro level, a lot of issues are getting sorted out," he says.

SHRIKANT BHAT
Citi

PREPARED TO ACT

As and when markets do correct, the right approach will inevitably depend on the level of investment and exposure within individual portfolios, as well as specific objectives. But in general, Bhat says a correction would be healthy for the market – especially in comparison with a unidirectional move.

"It is healthy because it becomes a more evenly-balanced market with participants on both sides taking reasonable views," he explains.

This is preferable to investors always chasing what they believe is going up, as in turn this leads to volatility shrinking and hence risk-taking increasing. "[A correction] has this double impact," he adds.

At the same time, a correction will allow individuals who are under-invested or who had missed the initial rally completely to re-enter the markets. "They are obviously cautious at the moment," says Bhat. "They don't want to get in when they know they have missed the time when the markets were 10% lower, but when they see markets correct, maybe by 5% to 7%, they feel more comfort, rather than not getting in at all."

From a fixed income standpoint, he points to the correction that happened in Brazil some time ago; this created a good opportunity for investors who wanted emerging market debt. "They could at least see that they could get rewarded appropriately for the risk they were taking on."

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READYING PORTFOLIOS

With such a likelihood, Bhat says Citi can tap into some of the tools it has created – both for its bankers and customers – to stress-test portfolios against interest rate hikes, for example, or shocks in terms of a sell-off.

The aim is to assess what a portfolio might be susceptible to, and use this information to take the opportunity to position it accordingly.

Looking at individual allocations is also important at such times of market uncertainty. "This is to see if there are allocations that are out of line," he explains. "For instance, either a position has already made significant profit or has consistently under-performed."

This gives investors the option to review whether they want to continue with such investments, or make a change.

At Citi, Bhat's reference point is the bank's own model portfolio, which has been designed in-house. "What we have always seen is that over a longer period of time, model portfolios tend to outperform any of the tactical investing that happens."

TACTICAL TILTS MAKE THE DIFFERENCE

While asset allocation continues to be the main driver of returns and performance across investor portfolios, Bhat says that a lot more nuance has come into investing in recent years. Taking broad-based indices as an example, initially investment specialists would simply look at large-caps, mid-caps and small-caps, and then also a sectorial view.

But the last three to six quarters have shown that specific sectors have outperformed, he explains. "So you could have been invested, but in the wrong asset class or the wrong sector, so would not have seen any growth."

The upshot of the global financial crisis in 2008, therefore, has been that a more nimble and more proactive approach can make a big difference in performance.

"No longer is it only about the 'invisible hand of the market'," he adds. "There have been clear policy actions taken by governments and central banks, for example, which have had differing impacts. So it is very important for investors to be able to make the most of these."

From Citi's perspective, it believes that the speed with which asset allocation changes are now needed, and also the fact that they must be in-step with policy actions, requires a professional manager rather than a relationship manager or client adviser reaching out to a customer from time to time.

Such an approach is even more acute with customers who don't have large portfolios, so might not be as actively engaged in managing them. ■