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**TOWN AND COUNTRY**  
*Wealth Section*

## MONEY HAVENS for 2008

*The decisions you make about your money depend on your understanding of the logic of the investment opportunity.*

The thing about money, of course, is that even when you have a lot of it, you still have the problem of what to do with it. All of my friends have the perfect answer to that—“Give it to me. I know exactly how to spend it.”

But certainly you know it's a really bad idea to spend all of your money today, hence the problem of investing. And even after you've decided where to put it, you still need to constantly monitor its status. This is because things change and yesterday's safe haven could be today's ticking time bomb.

In fact, as we entered the second half of 2007, global financial markets trembled with the ripples caused by the collapse of a portion of the US sub-prime credit market. On the other hand, many of the Asian markets seem primed for explosive growth. The real question of course is: where are the real investment opportunities?

But first, a caveat: You and I know that no one can really predict the future with accuracy. More importantly, your decisions about your money will depend on your understanding of the logic of the investment opportunity.

I have listened and talked to several investment professionals, chosen my two favorite ones and gathered their thoughts. To give you the opportunity to evaluate these possibilities, I will provide you with the rationale for these picks.

We first check in with our local investment professional, who begins with fears about the recurrence of 70's style “stagflation” in the United States. Simply put, this is a period of slow economic activity coupled with rising prices—the worst of all possible worlds. This situation is a nightmare because slow economic growth means a slowdown in the stock market, traditionally the first choice for high-return investments. When this happens in tandem with high inflation, your real rate of return – the difference between what you actually earn and the value you lose because of inflation – is squeezed and can even become negative. Presuming you believe that there is a strong possibility of stagflation, how would you manage your investments?

First, eliminate the classes of investments that fare poorly in such a situation.

Generally, investments in the stock market fare poorly in a slowing economy. The stagflation in the early 1970s (1973 to 1974) resulted in the Dow Jones Index falling as much as 45%! While history may not always repeat itself, it might make sense to focus on investments that are expected to benefit in periods of stagflation.

In fact, this is not a surprising result. In a slowing economy, spending goes down – this means sales slow down. Couple this with rising expenses (inflation) and you have a recipe for business disaster. Since stock investments are essentially investments in businesses, stock investments are to be generally avoided in a scenario of stagflation. If you believe the stagflation will be limited to the US, you are free to continue to invest in the Philippine stock market. However, if you believe that the contagion will spread to the local market, you would do well to avoid stocks altogether. Remember what the old-timers say: When the US market sneezes, the local market catches a cold.

Second, an inflationary environment is also generally a high interest-rate environment. An increasing interest rate environment is generally unfavorable for long-term bonds (such as ten-year or twenty-year treasuries).

Let's explain this. Let us take the simplest of all possible bonds, one that will yield 5% per annum over a twenty-year period. Again, for simplicity, let us assume there is no compounding. This means that your investment of 1000 would earn 100% (5% times 20 years) or 1000 (100% of the original 1000 investment). This means you double your money in twenty years. Let us say you invest 1000 today. You will then receive a bond that will pay 2000 in 20 years. Now, assume interest rates rise dramatically to 15% per annum the day after you invest in this double your money product. This means that 1000 invested today will earn 300%. With these new interest rates, your 1000 will become 4000 in 20 years. Now, imagine you need to sell your bond – one that will pay 2000 in 20 years. What is its value? Its value is 500. Simply put, the value of bonds plunge when interest rates rise. Conversely, their value increases when interest rates decline.

So if you suspect interest rates will rise, do not lock your money into long-term bonds.

So what is left?

Clearly, short-term investments are an option. Cash is king in a period of asset deflation. The investor who has cash can pick up stocks or bonds for a song when the expected asset price drops occur. Rising interest rates will have little or no effect on short-term investments.

Choose real estate. Historically, real estate investments have worked very well in inflationary periods. The long-term growth in price of real estate is often much greater and faster than inflation. Also, the risk is usually smaller compared to investments in the stock market. In fact, in general, in an inflationary environment, avoid paper and concentrate on hard assets. A word to the wise, though. Do not sacrifice your cash reserve for real estate. Many real property owners end up selling their property at steep discounts when they are caught in a cash-crunch situation—which is a real risk during periods of high interest rates, rising prices and slowing economies.

There's also nothing like gold. In the early 1970s, with the onset of stagflation, gold prices almost tripled. The price of gold increased from \$66/ounce to \$186.50/ounce—an increase of 282 percent in less than two years! Gold is a store of value during inflationary and relatively chaotic periods. In fact, many of my Chinese friends have told me that there is a Chinese tradition of targeting increasing levels of gold as part of personal wealth. If you couple this with the fact of the rise of the middle class in China, you have a situation with increasing demand for gold. And an increase in demand generally leads to an increase in price.

If you believe that the problem is limited to the US and simply wish to seek protection from the falling US dollar, seeking shelter with other currencies might make sense. Possibilities include the Canadian dollar (bountiful natural resources, especially oil and precious metal reserves and healthy fiscal and trade balances); the Australian dollar (high interest rates for relatively similar risk); or the Singapore dollar (Singapore is poised to reposition itself not only as a port and business hub but also as a center for tourism, arts and entertainment).

Let us now turn to our global investment professional, who also begins with an observation concerning the weakening dollar. As a result, the suggested investment themes point toward investment sectors that are driven by secular trends unaffected or even helped by the weakening dollar.

First up are power and energy, for which there are two words—China and India. These two extremely large, fast-growing economies are going to require power and lots of it. Privatization and infrastructure asset management are the watchwords for this sector.

Then there's commercial real estate. Certain specific locations will benefit from the movement of jobs away from high-cost locations. In these places, there will be increased demand for commercial real estate. This is true for many places in Asia. In the Philippines, we see this clearly in the steep rise in lease rates for commercial property. In fact, those who have leases in prime Makati property know that they are looking at as much as double, and in some extreme cases, even quintuple the rate upon lease renewal. And I understand that many of the buildings rising at the Fort are already fully tenanted.

The wealth management sector is also doing brisk business, with the burgeoning Asian middle class and the rise of the high-net-worth Asian. Just remember that these sophisticated investors will tend to go directly to the source. Focus on manufacturers. Be wary of intermediaries.

Lifestyle spending is also on the upswing. Richer Asians mean more spending on travel. Focus on tourism and all the industries that benefit from it — shopping malls, entertainment, gaming and the entire hospitality industry. Also, increased wealth means the increased ability to spend on non-essential, feel good products. This includes such things as spas, gyms, cosmetics and even cosmetic surgery.

Then there's agriculture—no, not the traditional kind; the sector to watch is the research and development anchored agri-science companies. These are the companies that are bringing technology to agriculture. The added fillip to this is not just the renewed conscience of the developed world's populations concerning helping the poorer countries feed their people, it is also the search for renewable sources of fuel.

Finally, don't forget, for some portion of your money, you might want to let a professional do the thinking for you. Consider investing in mutual funds. Choose one with an excellent reputation and a proven track record and let them worry about the decision-making.

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## THE BASICS

Before plunging into the exciting business of such things as asset allocation, investment themes, currency exposure or even stock picking, it is extremely important that you make your investment decisions as part of a well thought-out financial program.

1. **The Triangle.** This has to do with the three key considerations in investment: safety, liquidity and yield. As a general rule, these three factors tend to oppose each other. This means, for example, that chasing yield often entails giving up either safety or liquidity. In other words, you can't have everything.

2. **The Pyramid.** This has to do with the way in which you should view your investment portfolio. Your investment portfolio should form a pyramid and is built from the bottom up. The pyramid is built with very safe instruments at the base, moving on toward higher-risk, higher-yield instruments near the top. Hence, the base of the investment pyramid will include an emergency cash fund, some real property (the house or houses you live in) and life insurance. The middle portion of the investment pyramid is typically the largest portion of your portfolio. For those who are in their saving stage, still many years away from retirement, the main objective of this portion of the investment portfolio is growth, with the capacity to absorb greater risk. For those nearing retirement, stability and safety become the objectives. During the retirement stages, the goal for this part of the portfolio is income. Toward the tip of the pyramid is where you find the part of your wealth you can afford to lose—the place for high-risk investments.

3. **The Story.** Whenever you invest, you do so for a return. You must be entirely clear about how you expect to generate this return. If you are investing in real estate, your main return is rental income. Hence, you must be clear about why this is attractive as rental property. If you are investing in a particular stock, you are either investing for dividends (this is unusual in an emerging markets environment) or for capital appreciation. As most stocks in Asia are bought for capital appreciation, when you buy a stock, you need to be clear why you believe the stock will appreciate in value. If part of the story of your stock is that it has excellent management, you must seriously think about bailing out when a management exodus becomes apparent—unless the new management is clearly stronger.

4. **TANSTAAFL!** In the words of my favorite author Robert Heinlein, "There Ain't No Such Thing As A Free Lunch." If something sounds too good to be true, it probably is.