

Media Release

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Once-in-a-generation opportunities exist in Asia for investors: Asset allocation is critical to protect and build wealth

Two simple words summarize the single most important driver for investment performance in 2009: asset allocation. Burkhard Varnholt, Chief Investment Officer at Bank Sarasin, speaking in Hong Kong, described the current crisis as creating “once-in-a-generation” opportunities for investors, encouraging them to be both open-minded and contrarian.

He also urged investors to scrutinize the long-term sustainability of business models in order to assess risk. In 2008, Sarasin’s sustainability screen shielded investors from some of the companies that were hardest hit by the financial crisis, including pure-play investment banks, the automotive and airline industries, and commodity producers. A thematic allocation process, which provided important protection, even if limited, from a globalized, interdependent economy in 2008, should also be adopted in 2009.

Courage, staying power and experience will benefit

“We are witnessing a unique global policy experiment. It is natural that this will create once-in-a-generation opportunities. But it takes courage, staying power for the longer term, and experience for investors to benefit. Rapid and decisive asset allocation – even if it is painful – is necessary to protect and build investors’ wealth in this environment.”

Despite expecting global bond markets to be hit with increasing defaults and some challenging government issues, and subscribing to the view that a considerable portion of financial institutions are insolvent, Sarasin notes that no more systemically relevant banks or states will be allowed to default. However, wealth destruction is expected to continue in the US housing market, given that housing prices increased more than 130 percent from 2000 to 2006, while real wages actually fell. With abundant credit having fuelled a vast expansion in global production capacity and real estate, supply now exceeds demand, so bankruptcies will occur. “In effect, capital investment during a credit bubble borrows growth from the future,” Varnholt said.

But there is reason for some confidence. Combined, monetary and economic policy will be crucial in reversing the negative economic spiral, but at the risk of fuelling inflation. Varnholt gives global policy measures and the speed of capacity reduction a 70% chance of succeeding in clearing markets and restoring market equilibrium. He predicts a dark year for 2009, brightening towards the end of the year.

Despite grim economic statistics for China, Taiwan, South Korea, and Japan (with China, as an example, recording a 43% drop in imports, 17% decline in coal production, a 19% decline in copper imports, and a 7% decline in power generation), Varnholt also spoke optimistically of Asia: “Regions are like individuals. They have track records that suggest future performance. Asia has a long and proud track record of adaptability, creativity and success in overcoming economic and social problems.”

Investments for 2009

To hedge against the possibility of policy and economic failures, Sarasin recommends investing a 10% portfolio allocation in gold, which may also serve as hedge against the next wave of deflation and the potential devaluation of the US Dollar. Varnholt also outlined nine investments which he believes will be positive for investors in 2009.



These investments are:

1. Chinese A-shares
2. Selected sustainable water companies (i.e. desalination, metering, treatment, irrigation)
3. Rare materials, such as Tantalum and Platinum
4. Wheat, grain, corn and fertilizer companies
5. Norwegian and Swedish Kronas, the Pound Sterling
6. Asian currencies (except the Hong Kong Dollar)
7. Selected convertible bonds
8. Sustainable real estate developers
9. Selected renewable energy companies

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