
RIDING THROUGH VOLATILE TIMES



AS INVESTORS WE
NEED TO BE ABLE TO
RIDE THROUGH THE
VOLATILITY CAUSED
BY CHANGES IN
SENTIMENT AND FOCUS
ON OUR LONGER-
TERM INVESTMENT
OBJECTIVES.

WRITTEN BY
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The global economic recovery is in serious trouble. That much you have learnt from the media over the past few weeks. At the beginning of 2011, we shared through our writings that over the next few years, we will be in an environment of uncertainty and risk, including slower growth in developed nations, as well as lower investment returns and higher volatility over the next few years. This situation arose because of the Great Financial Crisis that we went through in 2008. Developed nations are now in the process of repaying their debts and as such the developed world will be growing slower compared to the past. The prognosis was for the most badly hit economies' GDP growth to be 1.5-2% in the coming years, slower than in the previous decades. So what has been said in the media recently about slower growth is not new. Why then the sudden fall in the stock markets now?

Economic data revisions released in July showed that the slow growth situation in developed economies is indeed panning out. This raised fears that the US may be going into a recession. These fears have been compounded by the political

disarray displayed by US political leaders during the debate on raising the US debt ceiling. This has made investors wonder if the US politicians can come together to tackle the bigger issue of long-term debt reduction. This has led the rating agency Standard & Poor's to downgrade the US credit rating below the AAA rating. In Europe, while a Greek default has been averted, the highly indebted countries Spain and Italy have come under pressure as bond yields have moved up over the last month. All these factors have created an uncertain atmosphere, and investors have lost confidence and sold down risky assets.

But the sell down is really more sentiment driven rather than a fundamental change of views. Slower growth was something that we expected all along. Besides, while the recent US economic data has been weak, there are still reasons to expect the global economy to avoid a recession. First, US consumers have already cut back on spending during the last three years and have re-built their savings. Further, corporate balance sheets are in good shape with companies reporting strong earnings and holding record levels of cash.

Therefore, consumers and companies are in a better position to ride out this period of economic weakness. Consumer spending and corporate capital expenditure will rebound once confidence returns. Global industrial production has also been impacted by Japan's March earthquake, and as Japan's industrial production improves, it will support global growth. In addition, governments have started efforts to restore market confidence. The G7 has issued a communiqué stating it will "take all necessary measures to support financial stability and growth" and the G20 has also issued a similar statement. In Europe, the European Central Bank (ECB) has started purchasing Italian and Spanish bonds. The political debate that has generated so much uncertainty is unfortunately part of the adjustment process that the developed countries will go through as these countries slowly resolve long-standing problems. The current

environment will be more prone to crises as it is out of crises that needed change in behaviour comes. As investors we need to be able to ride through the volatility caused by changes in sentiment and focus on our longer-term investment objectives. For investors with longer-term time horizons, they can shift their investments to areas that are less affected and are likely to do better. These include emerging market equities, Asian corporate bonds, energy and agriculture.

But beyond just thinking about our investments, perhaps this is a good time for us to really sit down and reflect on how we have been responding to the world post-2008. Perhaps, we have been overly confident. Despite living in uncertain times, we kept pushing property and car prices to ridiculously new highs. We fund our purchases by taking on more debt that will take our entire

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lifetime to pay. We live our life as if good times will always be here and we will always have our jobs. Can we see that we are behaving the same way as the developed world did decades ago? One day, this house of cards will also tumble. We are motivated to chase the Singapore "dream" and as a result, we buy things that we don't need, with the money that we don't have, to impress the people we don't know. My fear is that we become a bondage to money and end up with families that are broken, children who become delinquent, a heart that is less tender because we spent our energies and time on climbing the corporate ladder, to earn more so as to

fund our dream. We end up becoming servants to money and unknowingly make money our "god".

As we re-visit our financial plan in consideration of what is happening to the world now, perhaps it is good to adjust it to meet our needs, instead of chasing our "dream". This requires us to adopt an attitude of contentment, which is a deliberate state of mind that decides that we can't have everything in life and as such, we plan to have things that are more important to us and no longer crave for things that we cannot have. Because I have learnt that contentment is one of the sure paths to happiness.

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