

The dangers of DIY

– James Klemptner, CFA

Thanks to our global client base we have the opportunity to meet advisers and institutional investors with a very varied mix of underlying client types. Some live in countries that have a very well-established investment culture and others are more nascent. Regardless of which environment our end users are used to, the allure of investing on your own, without professional help, is always present. Different geographies have very different ‘mood music’ from an investor risk perspective: it is interesting to see clients in one country have a particular preference in terms of risk and investment outcome whereas their neighbours across a border can have a very different stance. The same goes for the idea of investing globally versus keeping capital in one’s home market. For some there is a temptation to invest with companies they see every day whereas for others the allure of global behemoths is too great to ignore.

Some clients are keen to invest directly in companies whereas others prefer to invest in funds managed by firms on their behalf. There is a huge amount of variety in terms of different client needs and the fact that investors are happy to follow their instincts is understandable but also risks creating very imbalanced portfolios. I think part of the reason why, is that a lot of clients with capital are either successful businesspeople or are interested in business and so they are not daunted by the prospect of putting money at risk especially with companies that they are familiar with.

Investments as a profession has done a poor job of demonstrating our collective usefulness over and above a Do It Yourself (DIY) approach. Most legal matters are quickly passed onto a solicitor, accountants handle all but the simplest tax jobs and while most of us could have a go at amputating our own limb, few of us would think it worth the risk. For these other professions the benefits of qualifications, training, experience and resources are either self-evident, indoctrinated, or we are all so petrified of the adverse consequences of a botched DIY job that we leave it to the experts.

Yet the pitfalls for the unwary in the sphere of investments are huge and despite those risks the allure of DIY is often too great to ignore. But even in the relatively prosaic world of long only investing in funds you can be lulled into a false sense of security. In fact, choosing fund managers is a very difficult job indeed. There are tens of thousands of funds available worldwide – multiples of the number of large cap stocks available to equity investors and, amongst their ranks, there are some total duds. Whether that be due to inappropriate fees, misleading labelling, questionable liquidity or insufficient oversight, there are myriad ways to end up out of pocket even before the movements of the markets are taken into account. Additionally, although thankfully rare these days, there is also from time to time outright fraud especially in less well-regulated corners of the markets.

In order to look past labels, understand philosophy, risk controls, culture and so on a combination of quantitative and qualitative research is essential. Getting to know a portfolio well ahead of investing by analysing the holdings through time to identify stylistic, sector and regional exposures is essential. Portfolio concentration, turnover, active share also provide important insights into a fund manager’s modus operandi. Only once we have run the holdings through our systems will we undertake detailed (and repeated) manager due diligence meetings. We run the agenda and we only consider investing once we are confident that this is the fund for us. We get access to these managers and any that don’t pass muster are quickly put aside. This level of research and insight is essential and that is why we believe a DIY approach to fund selection is a risky business indeed. We believe that detailed research, experience and insight is essential to have the best chance of achieving our clients’ investment outcomes.

The Marketplace

- Coronavirus concerns dominated sentiment again, with markets falling strongly today
- Markets turn increasingly risk-off in light of global data releases
- Brent crude rose 2.1% ending the week at \$58.5 a barrel
- Gold rose 3.7% ending the week at \$1643.4 an ounce

Market Focus

US

- US equities fell 1.2% over the past week, mainly due concerns of the impact the coronavirus will have upon US firms that rely on Asian production (e.g. Apple).
- The composite PMI fell sharply into contractionary territory at 49.6 for the month of February, the first fall in the US's private sector activity since 2013.
- Other data released was in aggregate better than expected, e.g. housing starts declined 3.6% (vs -11.2% expected) and building permits rose 9.2% (vs 2.1% expected).
- It was reported that the White House is considering export restrictions on China's leading technology products in order to slow the regions progress.

Europe

- Eurozone PMI data exceeded expectations at 51.6 (vs

- 51.0 expected), reigniting talk of the region's economic recovery.
- Italy has experienced the largest outbreak of the coronavirus outside of Asia, with three people killed and at least 157 others infected. A lockdown in two regions has also prevented 50,000 citizens from entering or leaving.
- Continental European equities fell 0.6% and Euro government bonds returned 0.4% over the past week.

UK

- The UK composite PMI held at its January level of 53.3, the highest level since September 2018.
- Inflation rose for the first time in six months supported by higher fuel prices and airfares.
- The job market added 180,000 new jobs in the last quarter of 2019, despite the stagnating economy.
- UK equities gained 0.1% over the past week, with the UK gilts index gaining 1.3%.

Asia/Rest of The World

- Japanese equities fell -1.7% for the second week running.
- The global equities index declined 1.1% and the emerging markets index fell 2.0%
- Gold rose to a 5-year high following the increased global impact of the coronavirus

Asset Class/Region	Currency	Currency returns			
		Week ending 21 Feb. 2020	Month to date	YTD 2019	12 months
Developed Market Equities					
United States	USD	-1.2%	3.6%	3.5%	22.0%
United Kingdom	GBP	0.1%	1.7%	-1.6%	6.8%
Continental Europe	EUR	-0.6%	4.7%	3.9%	20.5%
Japan	JPY	-1.7%	-0.6%	-2.7%	6.4%
Asia Pacific (ex Japan)	USD	-1.9%	2.5%	-1.3%	7.6%
Australia	AUD	0.4%	2.0%	7.1%	21.1%
Global	USD	-1.1%	2.7%	2.1%	17.9%
Emerging markets equities					
Emerging Europe	USD	-0.9%	-0.4%	-4.0%	16.7%
Emerging Asia	USD	-2.1%	3.1%	-1.5%	7.9%
Emerging Latin America	USD	-2.5%	-1.3%	-6.9%	-2.4%
BRICs	USD	-1.2%	3.4%	-1.2%	9.9%
MENA countries	USD	1.0%	-3.0%	-3.6%	-1.5%
South Africa	USD	-2.2%	3.3%	-5.8%	-2.2%
India	USD	-0.8%	0.5%	-1.7%	12.1%
Global emerging markets	USD	-2.0%	2.1%	-2.6%	5.8%
Bonds					
US Treasuries	USD	0.8%	0.5%	3.1%	10.2%
US Treasuries (inflation protected)	USD	0.7%	0.4%	2.6%	10.1%
US Corporate (investment grade)	USD	0.6%	0.8%	3.2%	15.3%
US High Yield	USD	0.1%	1.2%	1.2%	9.5%
UK Gilts	GBP	1.3%	0.4%	4.4%	10.6%
UK Corporate (investment grade)	GBP	0.7%	0.3%	3.2%	12.1%
Euro Government Bonds	EUR	0.4%	0.3%	2.8%	8.9%
Euro Corporate (investment grade)	EUR	0.1%	0.2%	1.3%	5.8%
Euro High Yield	EUR	0.1%	1.0%	1.2%	9.0%
Japanese Government	JPY	0.4%	0.1%	0.6%	1.7%
Australian Government	AUD	0.9%	0.0%	3.2%	9.3%
Global Government Bonds	USD	0.3%	-0.9%	0.8%	6.3%
Global Bonds	USD	0.3%	-0.6%	0.8%	6.8%
Global Convertible Bonds	USD	-0.1%	1.7%	3.2%	10.1%
Emerging Market Bonds	USD	0.6%	1.4%	3.6%	11.8%

Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	0.3%	5.3%	6.5%	16.9%
Australian Property Securities	AUD	0.7%	3.0%	9.6%	16.1%
Asia Property Securities	USD	-2.9%	0.2%	-3.8%	0.2%
Global Property Securities	USD	-0.7%	2.9%	2.5%	13.8%
Currencies					
Euro	USD	0.1%	-2.0%	-3.3%	-4.2%
UK Pound Sterling	USD	-0.5%	-1.7%	-2.2%	-0.5%
Japanese Yen	USD	-1.7%	-2.9%	-2.7%	-0.8%
Australian Dollar	USD	-1.3%	-1.0%	-5.6%	-6.4%
South African Rand	USD	-0.6%	-0.1%	-6.8%	-6.4%
Swiss Franc	USD	0.4%	-1.4%	-1.2%	2.4%
Chinese Yuan	USD	-0.6%	-1.7%	-0.9%	-4.3%
Commodities & Alternatives					
Commodities	USD	1.2%	1.8%	-5.7%	-3.7%
Agricultural Commodities	USD	0.6%	0.8%	-2.3%	-3.2%
Oil	USD	2.1%	0.6%	-11.4%	-12.8%
Gold	USD	3.7%	3.4%	7.9%	23.8%
Hedge funds	USD	0.2%	1.2%	1.5%	7.5%

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

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