YOUR MONEY

By
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The Currency Conundrum

For some expats, the main reason for working overseas is to gather assets which will enable them to live comfortably upon their return to the UK. For others, the thought of having to return to the grey of a UK winter proves too much and retirement to Thailand becomes the goal!

Wherever one spends their retirement years, it is important to ensure that hard-earned wealth is not put at risk by violent currency swings. There is absolutely no point in doubling one's money in a currency which has halved against the currency of one's future liabilities. The problem is that currency movements are incredibly difficult to predict.

Take, for example, the case of the US dollar. By some measures this currency looks cheap. For Brits, buying anything priced in US dollars has become a bit like a shopper's paradise with an exchange rate of US$1.9 to the pound. Likewise, the euro is difficult to forecast. It seems to move forever upwards despite the fact that the European economies are struggling to maintain any measure of economic growth. Then there is the Thai Baht which for some inexplicable reason is gaining in strength against both the weak dollar and the strong pound. In the last month the baht to pound exchange rate has plummeted from 75 to a meager 70.

In summary, currencies are unpredictable and yet managing them is essential if expats are to enjoy a prosperous retirement.

A common misconception amongst the expatriate community is that holding a range of different currencies will manage the situation. The problem is that diversification does not achieve in the currency markets what it does in stock markets. For example, take the case of the British expat working in the Middle East who is earning in US dollars and intends to retire to Thailand. Bearing in mind that the Baht is tied much closer to the US dollar than say sterling, if he spreads his assets amongst a variety of currencies he will, by definition, be adopting a high risk strategy rather than reducing it. If, on the other hand, he were to keep 100 per cent of his assets in the dollar he would have matched assets against liabilities and there would be less of a currency risk.

Of course, to have all one's assets in one currency ignores the fact that there are investment opportunities elsewhere in the world, and there is nothing wrong with having some exposure within an investment portfolio. However, safe assets such as cash should be kept in the base currency.

In conclusion, expats need to remain focused on their goals and anchor their asset strategy around the currency of future liabilities.

How The Wealthy Stay Wealthy

The World Wealth Report 2004, published by Merrill Lynch, examined the investment habits of high networth individuals (HNWIs) and found that the secret to wealth is a disciplined approach to investing. The report also revealed that in today's uncertain investment climate, the wealthy have tended to avoid taking on huge amounts of risk.

The World Wealth Report attempted to understand how the wealthy approach the investment process. Their analysis shows that HNWIs think in the same way as institutions, discarding any sentimental or emotional factors from their investment actions. Wealthy investors made sure that their assets matched their investment strategies and continually 'rebalance' their investments in a similar way to professional fund managers.

By way of example, the report showed that when share markets hit their lowest point in March 2003, HNWIs rebalanced their portfolios by moving money into shares, rather than out of shares. What followed was a rebound in share markets.

The Singapore share market gained about 42% to the year 31 March 2004 and the Hang Seng Index grew by 47% in the same period. The HNWIs were well positioned to profit from such growth.

The report revealed that a typical HNWI's portfolio in 2003, had 90% of its assets in a mixture of cash, fixed interest, real estate and shares, using a diversified strategy to protect and develop its core wealth. Alternative investments, including hedge funds, made up the remaining investments.

If you're wealthy then you're probably doing this already. If you're not then perhaps you should be reviewing your strategy now.

UK House Prices

House prices are still falling and have now done so for five of the last six months, a major new property market survey confirms today. There are more window shoppers around, which could be an indication of confidence returning, but they're not buying and - for now anyway - prices continue to head downwards.

They were 0.1% lower in January, taking the average asking price down to £189,509 from £189,733 according to latest figures. This makes a fall of 3.4%, or £6,700, since the peak of £196,198 recorded in July last year.

The figures confirm a separate study by the Halifax, published yesterday, which shows prices outside the south east of England slowing significantly as first-time buyers around the country found property becoming less affordable. Halifax chief economist Martin Ellis said he expects this trend to continue in 2005.

Many homeowners still have unrealistic views about how much their property is worth - a study shows that a 'two-tier' market is emerging in many streets and areas where realistically priced properties sell and those still at last year's boom prices do not. This is reflected in the amount of property available for purchase - there is 30% more on estate agents' books now than there was this time last year and the average time it takes to sell property has jumped from 53 days last summer to 87 days. Many experts believe this all means that 2005 will be a buyers' market, however careful pricing will dictate whether properties will sell. Waning levels of actual sales, however,

Continued on Page 28