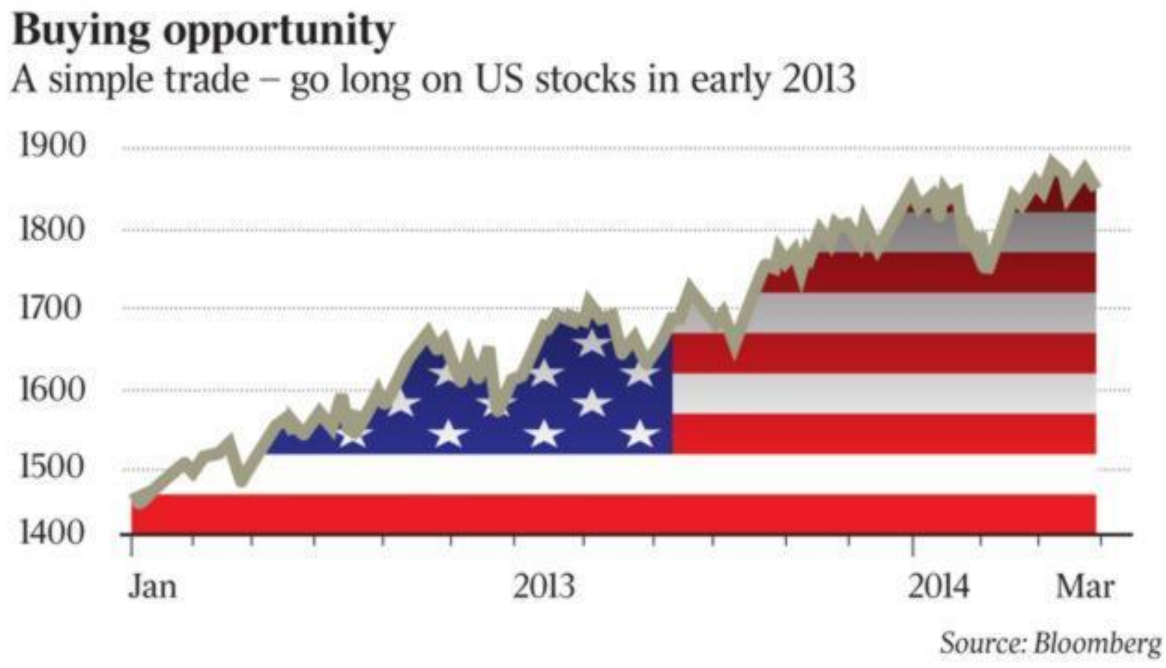
Valuable advice: following the ultra rich a worthwhile lesson in wealth



By **Stirling Larkin**

A PARTICULAR group of investors knew that the best investment opportunity last year was to buy into the US stockmarket. They were confident that this would deliver them the strongest returns seen in 16 years.

Even better was the fact there was nothing overly complicated about this investment strategy and simply going long in a broad market index, like the S&P 500, was all that was required. It was an investment strategy that enjoyed a level of simplicity rarely seen in markets.

What is intriguing about this story is that this moment was not apparent to most but was recognised by an investment community that had every reason to doubt it — they are commonly known as ultra-high net worths, or UHNWs. They are recognised as any individual or family that holds wealth of at least $US50 million in fungible assets.

This community valued the opportunity differently than most not because they had more information, capital or clout but because they had excellent advice.

This advice had told them that what the US Federal Reserve was doing through its unorthodox monetary policy this time around was not a typical postrecession stimulus but rather a once in an 80-year classic reinflation program, last undertaken in the depths of the Great Depression.

This community above all others appreciated this insight with no thanks to them being smarter, more educated or shrewder than the pack but rather because they knew that without this program the foundations of their position was under jeopardy. The advice was that the program mimicked that seen by the US Fed in March 1933. History had taught us that this reinflation takes approximately a decade to carry out and that assets correlated to the expansion of the monetary base during these times see their greatest reinflation sometime between the fifth and seventh year.

Therefore, if we say year one, the epicentre of the GFC was 2008 then we knew that 2013 was its fifth year and exact midpoint and thus where this opportunity presented itself.

This community does have their own set of unique circumstances that at times require specialist advice, however, the guidance provided to them should not be too dissimilar to that afforded to any other active investment community. Recent research highlights that the educated and the affluent take more risks when investing than others and that environment and experience also plays a part.

What may be concluded from this is that these investors aren't any better equipped than anyone else but that they highly recognise the importance in taking calculated risks and are not afraid to lead investment trends.

US president Harry Truman said that not all readers are leaders but all leaders are readers. It is clear that what we choose to read shapes our world view and without embracing deeper insights than our own we can never invest wisely nor accumulate wealth that weathers the storms of our times.

Reading is not just about absorbing information it is about sentiment and perspective or simply put, seeing the forest for the trees. UHNWs may have built the cornerstones of their net wealth by means of a dedicated focus and commitment to one particular industry or enterprise but they all share the common trait of maintaining this affluence by a diligent commitment to keeping themselves at the front of the curve.

This is often achieved by way of obsessive reading, polished acumen and the engagement of specialist advisers such as ours.

The power but also the potential peril of the copious amounts of reading material available to us in this digital age is that we can easily succumb to "analysis paralysis" and thus blur our own convictions with that of other's conjecture.

Many other investment communities allowed the conjectural concerns of a decelerating China or the never-ending US political quagmire to dampen their outlooks for last year and believed the naysayers' proposition that the year would underperform. They failed to recognise history in replay and even worse, the basic machinations of markets and economics in practice.

This highlights the point that there is an art to investing which involves embracing convictions, focus and continual self-assessment. It's easy to say (and write) that we desire to remain at the front of the curve and allow our acumen to lead us but realistically neither life nor successful investing is ever so straightforward.

Hubris and overconfidence are often a vice of the affluent and they equally distort perspicacity.

Warren Buffet has not reached the pinnacle he has solely because he makes consistently smart investment decisions, it is because he has mastered the rare ability of discerning important information from that of noise and allowing only what he believes to be material to influence his world view.

Sounds simple in theory but extremely difficult in practice.

While many, for example, have dismissed the Crimea crisis as an inconsequential geopolitical sideshow, George Soros, the highest-earning hedge fund manager last year and world's 26th-richest person sees it differently. He believes the geo-strategic ramifications and precedent (for which China may follow) is important and this has clearly shaped his world view and outlook on all investment asset classes this year.

The concern, in this instance, is that the Russian federation is tacitly championing an alternate economic bloc to that of the EU and now that the Rubicon has been crossed the current interdependence of our globalised economy is directly challenged. Soros and others remember that when hegemony is destabilised like that seen in the 1973 OPEC crisis, that then market conditions face new levels of volatility, that when resolved, don't necessarily produce any greater efficiencies or benefits to markets or mankind.

In contrast, the anguish around China's first bond default by the Shanghai Chaori Solar Energy Science & Technology Company is indeed unwarranted and the fact that Beijing allowed it to happen is seen as a positive by UHNWs.

This is because by drawing a line in the sand it affords domestic and international investors greater clarity on what is correctly priced in China, not only in debt and credit markets but in all asset classes, respectively. This removes some of the opacity priced into risk premiums and allows the market to differentiate value from risk.

Opportunities beset us all this year and there has been no greater time in history than now to build wealth and champion new trends. The onus falls on us to focus, commit and even lead.

In columns to come, Australian Standfirst will discuss the current themes affecting us all and how the UHNW community, in particular, correlates these to lucrative market moments.

As a wholesale wealth adviser we will discuss each respective asset class and highlight where distinct opportunities exist in Australia and across Asia.

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