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Wealthy investors stick with China and US

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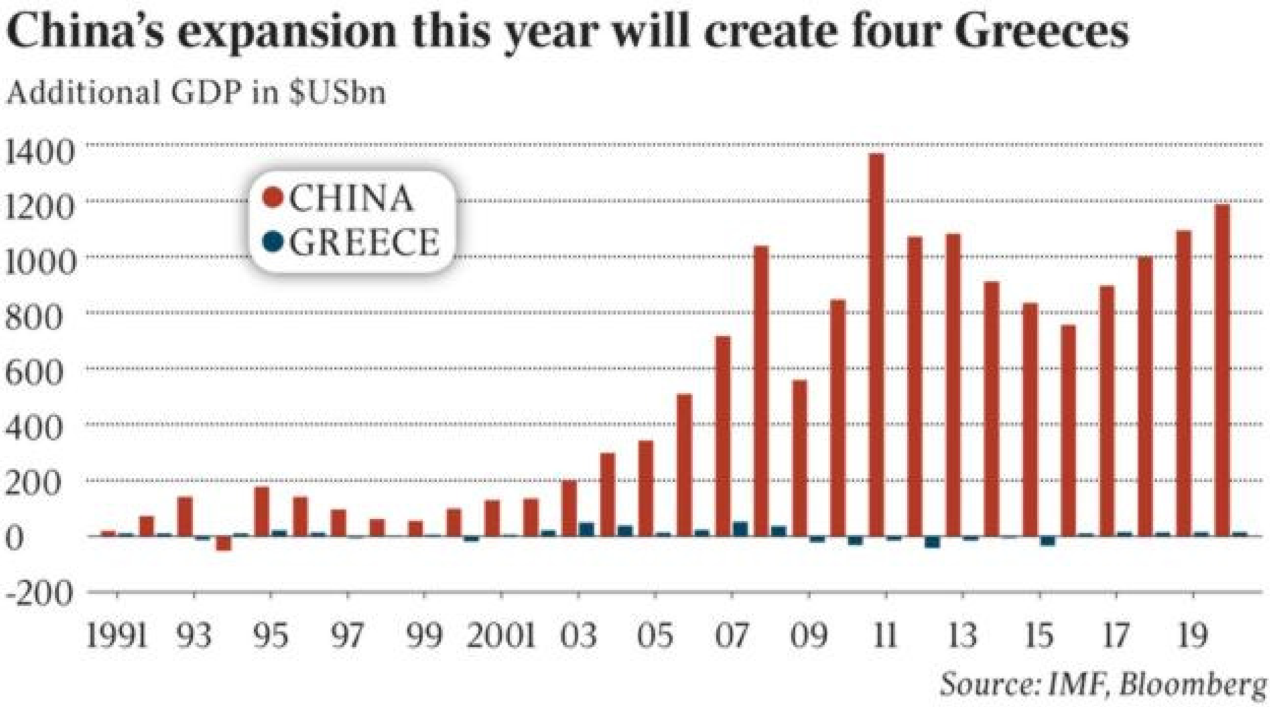

China's economic expansion Source: TheAustralian

During exactly these times, it is critically important to remember that there are key fundamental differences between the arts of trading and investing.

They may overlap at select moments, but they remain very different tradecrafts.

The fog surrounding eurozone, North American and Asian markets should not be confused with smoke.

This is only fog and it will pass.

When the Greek exit, or "Grexit", fades around the bend one day very soon — and it will — and the mystique of rising US interest rates no longer appears taboo — in late third quarter or thereabouts this year — markets and equally importantly, the global economy will be in a far healthier and robust place.

But short-term realities cannot be ignored by traders or investors, and this matters greatly at the moment particularly for Australian ultra high net worth family entities.

There is no internationally agreed definition of what differentiates high net worth from ultra but a simple rule of thumb would be that any individual or family entity with investable assets above $250 million could be acknowledged in this way.

Why this technical aspect is important for the Australian investment community is that within this categorisation UHNWs approach markets and investments in often very different ways and these varied approaches have implications for stockbroking firms, commercial and private banks and, equally, other Australian investment communities.

Even the most commonly recognised of such formations, known as a "Family Office", is often applied as a misnomer here in Australia for what are recognised across Asia as "Private Investment Companies" or "PICs".

This is important to understand because many Australian PICs — which go by the name Family Offices — will often have internal trading teams that actively trade a portion of their clients' investable capital.

The paradox faced by these particular Australian investment entities is then knowing which signals, “market moments” and “intel”, are applicable to their trading activities and which may be more profound or insightful for their longer-term investment portfolios, which also sit within the same entity.

By appreciating what is important to them and how they digest such market intelligence, other Australian investment communities can gain additional perspective about how best to proceed with their investing and trading.

As I’ve repeatedly pointed out, global markets are going to get more volatile and it is fair to foretell that the coming weeks and months will only be more hyperactive.

Even though stock, debt and credit markets are all explicitly aware of the likely repercussions of a Grexit, a Brexit (if Britain leaves the European Union), lifting US interest rates and China’s slower growth, such sagacity does not make immediate trading decisions any easier.

But where other Australian global investors can learn from Australian Family Offices or PICs is in how to approach trading, asset allocation and geographic selection at the same time.

And in these respects, the focus remains heavily upon the US and China.

The graph at left highlights a spectacularly simple point — even though the pace of China’s growth may be tempering, it is still growing and doing so at impressive levels by anyone standards.

This year alone, China’s GDP is forecast to generate more than $US800 billion at current prices ($1.02 trillion), which is about four times Greece’s GDP in totality.

But at this moment both the US and China need fresh investment capital directed towards their respective hard infrastructure throughout their real economies and no amount of market manipulation — such as quantitative easing in the US or state-led fixed foreign exchange controls within China — can substitute for the world’s two most significant economic blocs organically inflating through genuine prosperity.

Hence while free-trade accords and related multilateral agreements dominate global media headlines, the most important potential bilateral accord in 2015 is rarely, if ever, discussed by those outside of the inner circles of influence and real global power.

This important agreement is known as the United States-People’s Republic of China’s Bilateral Investment Treaty, or “Sino-US BIT”.

A Sino-US BIT affords China fresh investment capital that is not printed by the People’s Bank of China and the Americans desperately need upgrades to core infrastructure assets that have continued to be “kiboshed” by Washington’s fiscal gridlock.

Also, if China wants the IMF to include the yuan in their special drawing rights review, then “playing ball”, to borrow an Americanism, helps them with their cause.

When and if this does happen, especially pre-2016 US elections, it could spur significant real economic growth across the world.

Such growth would then be reflected across markets and almost all asset classes: a win-win.

But circling back to the acumen that Australian UHNWs are displaying today, the immediate mindset the global investor needs to clearly frame is where will markets be sitting come September and onwards this year.

And for those who cannot differentiate between someone tilting at windmills and another about to fall off their mule, maybe it would be wise to look to the very active Australian UHNW community who have tenured experience managing these particularly skilled tradecrafts.

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