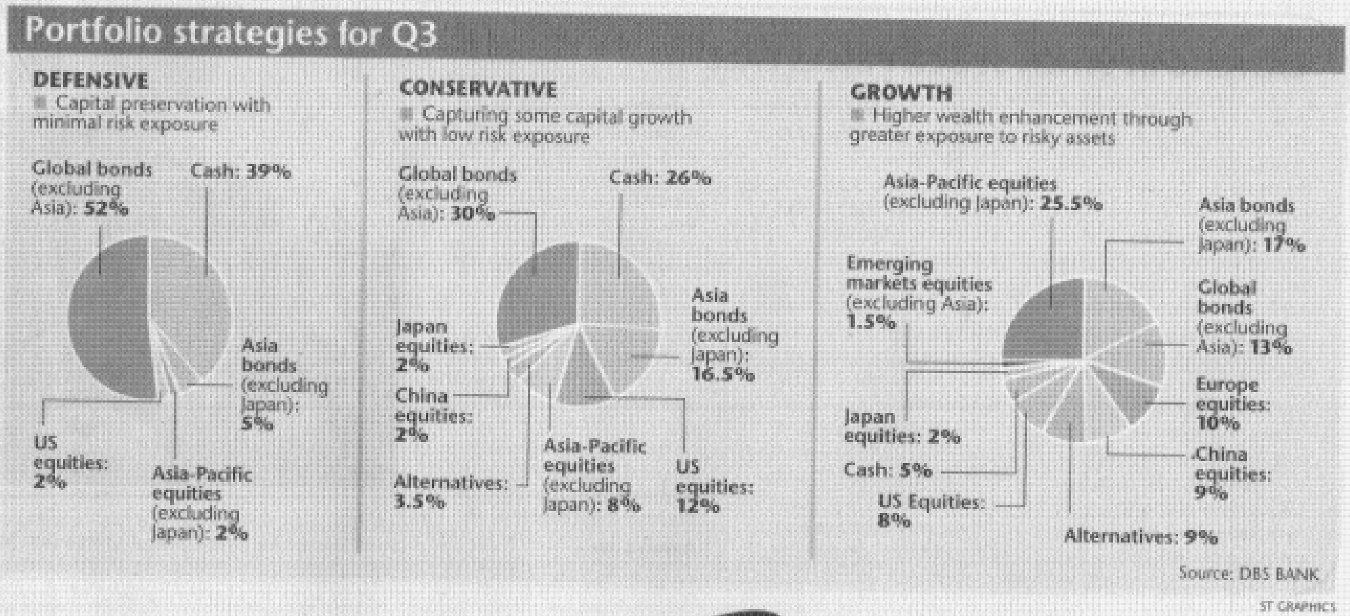
SMART MONEY MOVES

Experts highlight six investment themes for the next six months



Yasmine Yahya

The second six months of the year promise to be just as tumultuous for the global economy and financial markets as the first half.

Investment experts say there is little point in cashing out all of one's investments and hiding the money away until the market recovers, as high inflation will erode its value in the meantime.

They add that the savvy investor should be the one catching the market upswing right at the beginning, not the laggard who starts buying into the market only when it is already buoyant and assets are expensive.

In order to place the right bets for the rest of the year, these are the six investment themes that experts say investors should keep in mind over the next six months.

1 Do not forget about Europe's ongoing crisis

European leaders have slowly made some progress by moving in the right direction to tackle their region's economic woes, but they are far from solving the ongoing debt crisis.

"Europe will continue to be a risk you cannot ignore," said Mr Vasu Menon, the Singapore vice-president of wealth management at OCBC Bank.

"The region will likely move from crisis to crisis throughout the rest of the year, and each time there's a crisis, the market will slide and every time there's a policy response, the market will go back up."

Mr Stephen Evans, the Singapore head of investment counselling at ABN Amro Private Banking, added that the run-up to the German election, due late next year, bears watching.

"The willingness of the German people to share in the costs of bailing out the rest of the euro zone will be debated and sway the sentiment of the investors in the months leading up to the election," he said.

2 Watch out for China's recovery

China is an example of how the market is ignoring long-term growth trends and instead panicking over short-term economic cycles, said DBS Bank's chief investment officer, Mr Lim Say Boon.

"China's economy is slowing as a result of its adjustment to and cooling from the stimulus measures pumped in post-global finance crisis," he said.

"But the Chinese equities market has been sold down as if another global financial crisis is imminent."

Valuations for Shanghai-listed stocks are at their lowest since the 2008 financial crisis.

But in fact, Mr Lim noted, the

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SPREADING OUT INVESTMENTS

Ms Karen Flynn, 47, considers herself to be a defensive investor.

She has been gradually making changes to her investment portfolio to make it more resilient amid the volatility and uncertainty of the current economic environment.

For starters, the managing director of public relations consultancy Euro RSCG Siren has been moving more of her money into emerging market funds.

"There seems to be more growth potential for the medium term in these funds," she said.

"I am also looking at alternative investments such as art, land, property."

Over the next six months, Ms Flynn says she stands ready to deploy cash into more investments.

"For the balance of 2012, I will have cash ready to trickle into the market as opportunities arise," she says.

"I am not interested in short-term trading as it's far too volatile."

In order to further diversify her portfolio, she is considering investing in land in North America.

"I suppose the theme I am likely to stick to would be to invest smaller amounts in the market gradually and across various assets rather than large sums in one vehicle."

Yasmine Yahya

PHOTO: PANDORA WONG

Ms Flynn will put her money into various assets.

Stimulus measures likely in China, US

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Chinese equities market is mainly driven by the growth of the money supply.

The growth of the money supply in China has been reined in very sharply following the country's recovery from the financial crisis, but the economy is now at a point at which policymakers are likely to turn the tap back on so that banks will lend out more money, which in turn will stimulate economic activity, he said.

3 Be prepared for QE3

The United States Federal Reserve has said that it is prepared to do more to help the fragile US economy and stabilise job growth.

Economists and market watchers say this will likely come in the form of a third round of stimulus measures known as quantitative easing, or QE3.

"What the Fed wants is for the US economy to add at least 100,000 jobs a month," noted OCBC's Mr Menon.

"What we've been seeing in the past few months is that the economy has been adding only about 75,000 jobs a month, which is below what the Fed considers to be a stable growth rate. If this trend continues, we could very well see QE3."

The Fed might also act if the US Congress cannot agree on a federal budget before the end of the year.

At the start of next year, the tax cuts passed during the previous Bush administration will expire, at which point taxes will be increased for all US taxpayers.

"The Fed has warned Congress to do something, or else the US economy could contract 1.3 per cent next year," Mr Menon said.

"The Fed might extend low interest rates first, and if that doesn't stimulate the economy, then QE3."

And if QE3 is launched, the markets will rally, albeit for just a few months, he added.

4 Go for high-yield stocks that profit from emerging markets

ABN Amro's Mr Evans is keen on stocks that pay out high dividend yields.

"For the rest of the year, we are looking for opportunities to add on to equities. A decline of about 10 per cent at the global stock index level could be such a time," he said.

A company would also be extremely attractive if it is in the biotech sphere and is making medical advances, or if it can benefit from the demand for Western premium brands among rising middle-income households in fast-growing economies, he added.

OCBC, meanwhile, is positive on US stocks.

While the US government might be struggling with debt problems, US corporates are in very good shape, Mr Menon said.

The companies on the S&P 500 Index are sitting on a cash pile of some US$1.5 trillion (S$1.8 trillion) in total.

"The US government is very dependent on the US economy but its corporates are a different animal altogether, as they are more reliant on emerging markets, and are in fact proxy plays for the emerging markets," he said.

Tech giants such as IBM, Microsoft and Apple, for example, earn as much as 60 per cent of their revenues outside the US, and their valuations are at multi-year lows, he added.

5 Take a long-term view

Valuations in many markets around the world are approaching their lowest levels since the financial crisis, noted DBS' Mr Lim.

"The recent correction in risky assets has already opened up value opportunities for investors with a multi-year time frame," he said.

However, he added, risky assets could still suffer further losses over the coming months.

But this further correction could create good buying opportunities to ride longer-term trends in the region, he said.

For the time being, however, Mr Lim advised taking a defensive stance against equities.

"Go with large-cap or blue-chip stocks. They tend to be more resilient to spikes in volatility because they generally offer lower valuation, higher returns on equity and higher dividend yields than small-cap stocks."

6 Spread out your investments

With markets as volatile as they are now, and likely to remain so for the rest of the year, investors should not jump all at once but instead practise dollar-cost averaging, said Mr Mark Paine, managing director at Meyado Private Wealth Management.

This involves setting aside a fixed sum of money at set intervals to buy certain assets, for example, spending $5,000 each month on a basket of stocks.

"With equities, as ever, it is difficult to pick a day to invest, so we have been average buying in, for example, investing a lump sum over a period of three months rather than in one tranche," he said.

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