

SFP

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Economic Update

Growing Wealth Through Offshore and Alternative Investments

CEO's Message

Economic Update

What the world has going for it?

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US Federal Reserve Chairman Ben Bernanke, appearing for his twice-yearly appearance before the US Congress in July, summed up the gloom of investors when he said the outlook for the US economy is "unusually uncertain".

Investors are glum because the economic reports out during the September quarter showed for the most part that the world's biggest economies – the US, Japan, the eurozone and China – are slowing. And that even if another global recession is avoided, it might feel like one anyway.

Still, the world economies have some things going for it. For one, the global banking system is more stable now because western banks are in better shape, which should promote the lending that lubricates the economy.

Secondly, US companies are cash rich, so can keep their workforces and maintain investment plans. Another plus is that lower commodity prices supports economic growth. Oil prices, for example, are around half their peak reached in mid-2008.

Then there's how emerging economies are humming. The IMF expects the economies of China, India and Brazil to expand 10.5%, 9.4% and 7.1% respectively this year.

Lastly, more stimulus is possible. Many countries retain significant scope, at least on the monetary side, to prod their economies if conditions turn bleak.

Source | Fidelity



Recently, Capgemini and Merrill Lynch Wealth Management released a 2010 World Wealth Report to better understand the key trends that affect high net worth individuals (HNWIs) globally.

These two firms have been working together for more than 20 years to study factors, including macroeconomics, that drive wealth creation.

After reading this report, I would like to highlight some of the key points that can benefit readers and investors globally. Let me start off with the state of the world's wealth post Global Financial Crisis (GFC):

- The world's population of HNWIs grew 17.1% to 10 million in 2009
- The wealth of Asia-Pacific HNWIs stood at US\$9.7 trillion by the end of 2009, up 30.9%, and above the US\$9.5 trillion in wealth held by Europe's HNWIs
- HNWI population remains highly concentrated where U.S., Japan and Germany accounted for 53.5% of the world's HNWI at the end of 2009
- After losing 24.0% in 2008, Ultra-HNWIs saw wealth rebound 21.5% in 2009. At the end of 2009, Ultra- HNWIs accounted for 35.5% of global HNWI wealth, up from 34.7%

Based on the facts and figures above, HNWI recovered significantly in 2009 despite the volatility and the weak market recovery. There are a few key measures HNWI took to recoup their financial status:

- **Diversification:** Portfolios of HNWI are widely diversified to various assets including equities, fixed income, cash, real estate and alternative investments. A diversified portfolio reduces the overall risk and would be more resilient to market volatility
- **Specialised advice:** According to this report, advice on financial planning and tax aspects were the most demanded by HNWIs. As clients become more educated on their investment choices, they expect more 'specialised' or 'independent' advice from their personal advisers. Therefore, more clients today prefer dealing with independent advisers who are more client centric than tied advisers who represent and market one company's products
- **Transparency and simplicity:** HNWI clients are seeking increased transparency and simplicity as well as improved client reporting so they can better understand the products, valuations, risks, performance, and fee structures. HNWIs review the product disclosure statements and investment risks before discussing with their advisers
- **Effective portfolio and risk management:** Post GFC resulted in the vast majority of clients viewing 'Effective Portfolio Management' and 'Effective Risk Management' as highly important to understanding risks. For instance, many wealthy clients are very concerned about their exposure to markets and want to limit their downside risk. At the same time, they know they

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- need to diversify and have global exposure, particularly to fast-growing markets. As a result, they want evidence through risk-scenario analysis to facilitate investment decisions that meet their goals while remaining aligned with broader volatility and risk-appetite limits

Moving forward, investors globally are demanding fundamental changes in how they are served, and shifting their investments to advisers and firms that can clearly demonstrate a sharper understanding of their needs and objectives by delivering risk-adjusted portfolios, increased transparency and simplicity, and specialised advice. While this had created room for improvement for the overall industry, Standard Financial Planner and its advisers are committed to delivering the right level of high-touch advice and market-relevant products and service to meet the needs of all clients.

Source | 2010 World Wealth Report prepared by Capgemini and Merrill Lynch Wealth Management

Growing Wealth Through Offshore and Alternative Investments



Are you among the millions of investors who have lost money over the past few years investing in stocks, unit trusts or properties and have now switched to more conservative investments such as fix deposits and low risk investments?

If you are, you will probably be disappointed when your friends and peers' investments greatly outperform yours within the next few years. The general rule in investing is "Higher returns come from riskier investments". So instead of transferring to low risk investments, you should add safety nets into your portfolio by including offshore and alternative investments.

According to the Merrill Lynch 2010 World Wealth Report, the rich diversifies about 10% of their total wealth to offshore and alternative investments such as structured products, collectibles, hedge funds, managed futures, and precious metals (gold, platinum etc).

Then the next question; how safe are these offshore investments? Popular offshore financial centres such as Bahamas, Bermuda, Cayman Islands and

Isle of Man offer secure investment opportunities and more than half of the world's assets are held in these offshore jurisdictions. However, it is always a good idea to consult your licensed financial planner before making any investments.

There are several reasons why investors use offshore and alternative investments as their core investments:

Tax Reduction - Many offshore financial centres offer tax incentives to foreign investors. These tax haven countries are able to provide zero-taxed products for investors. This means, investors can grow their investments in a tax free environment. Favorable tax rates in offshore countries are designed to promote a healthy investment environment that attracts outside wealth.

Asset Protection - Offshore centers are also popular locations for restructuring ownership of assets. Through trusts, foundations and other existing corporations, individual wealth ownership can be transferred from individual to other legal entities. Therefore, individuals can be protected from lawsuits, or foreclosing due to outstanding debts if their assets had been transferred from their

personal estates to an entity that holds outside of their home country.

Client Confidentiality - Many offshore jurisdictions have enacted laws establishing strict corporate and banking confidentiality. If this confidentiality is breached, there are serious consequences for the offending party.

Diversification - As the old saying goes, "don't put all your eggs in one basket". Placing each egg in a different basket is more diversified. There is more risk of losing one egg, but less risk of losing all of them. Offshore and alternative investments are one of the best tools to reduce overall investment risk through diversification. By diversifying through multiple assets, regions, currencies and investment managers, investors are able to narrow the range of possible outcomes. This is very crucial for individuals planning for their retirement because the smaller the range, the higher level of certainty of achieving their retirement plans.

For more advice or consultation on investment and other financial planning needs, contact your nearest Standard Financial Planner representative today!

Source | Merrill Lynch Wealth Management

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