



# Time to Invest 'Outside the Box'?

**The past few weeks have seen a further deterioration in world financial markets with the Dow Jones index dipping below the psychological 10,000 mark and little news to indicate that better times are just around the corner.**

In the US the latest home sales figures are among the worst on record, the national debt is continuing to rise and local authorities are running out of cash and laying off hundreds more workers. In Europe, Ireland is having to prop up its banks yet again while several of the Mediterranean countries continue to struggle with their debts and high unemployment. Further East, Japan's latest stimulus package has failed to stem deflation and the Yen continues to rise to the consternation of exporters.

## **AREN'T YOU GLAD YOU LIVE IN INDONESIA?!**

Maybe so, but if you are an expat and you depend on your savings and investments to ensure your future financial security these must be worrying times. If you have been faithfully investing in the major stock markets you are almost certainly worse off than you were ten years ago. Money in the bank is now earning interest (if any) well below the rate of inflation. If you bought a property in most western countries during the boom years you are probably sitting on a significant loss.

There have been some bright spots such as emerging markets, but unless you were well-invested in these, as well as some of the 'outside-the-box assets' below, the chances are you have been getting nowhere fast.

## **BUT WHERE DO WE GO FROM HERE?**

The immediate outlook for traditional assets such as cash, bonds and equities is not good. While the 'buy and hold' theory should still work for the long term we need to be more imaginative and pro-active with our savings in the shorter and medium term. This means looking for opportunities 'outside the box'. It does not mean abandoning traditional investments. Cash remains a critical element to provide liquidity in all circumstances. Equities and bonds should still form the core of a balanced portfolio and everyone should aspire to owning their own home. But a portion, depending on personal circumstances, should be allocated to other asset classes that offer better prospects of growth in the present climate. So what are these assets?

## **OIL AND ENERGY**

These should probably now be considered as belonging 'inside the box'. Indeed, since they can be freely accessed via stocks and mutual funds they should fall strictly under equities. But they form a very important sector and need special attention. As the global population continues to grow at an alarming rate demand also continues to grow for energy resources that are rapidly depleting. The world is going to have to turn progressively towards alternative and sustainable forms of energy. Demand for both conventional and alternative forms of energy is currently sluggish but as demand picks up again the pressure on both will increase. These are areas worth investing in for the medium and longer term, even if prices are volatile in the shorter term.

## **GOLD AND PRECIOUS METALS**

One thing is for sure. These assets are not in unlimited supply. Gold has had

---

a rollercoaster ride over the years. Sometimes it surges as in recent years, other times it lies low, as it did from around 1980 for almost a quarter of a century. But it will always have a value and is a good hedge against a falling dollar and political or economic turmoil. Silver also to a lesser degree. Platinum has a life of its own as it is needed in the oil, auto and computer industries. A balanced portfolio should certainly have a portion allocated to these assets. No need to go out and buy the physical product; you can access them through bullion or mining funds.

### OTHER NATURAL RESOURCES

These include other metals that are needed by industry such as iron ore, copper, zinc to name but a few. Then we have that priceless commodity, water. We take it for granted but much of the world's population has no access to clean water and maintaining a constant supply in even advanced countries will become a growing challenge. Then we come to agriculture. Recently we have seen massive forest fires in Russia, unprecedented floods in Pakistan and a mixture of droughts and floods in other countries. These events have already forced up the price of wheat. A growing population and a shrinking food supply due to climate change will inevitably lead to shortages and higher prices. Again, through mutual funds you can invest in metals, water and agriculture, assets that will always be in demand and can only rise in value over time.

### FORESTRY

While many resources are finite, one resource is renewable and sustainable, namely trees. With growing demand in line with rising populations an investment in forestry has got to pay dividends for those who have patience. Here in South-East Asia we have some interesting investment opportunities. Products range from bamboo to jatropa, a fruit that converts to biofuel and has even been

successfully tested in a jumbo jet, and a product called agarwood, a highly-prized aromatic resin. Investment in forestry products entails tucking your money away from between three to fifteen years. That might seem a long time but the returns could outperform your conventional pension scheme. The companies offering the investments project returns in excess of 15% per annum.

### LITIGATION FUNDING

This is not a new asset class. It has been around for over 30 years, mainly in the US and Australia. The difference now is that it is growing in countries such as the UK, where it accounts for only 5% of total litigation costs. But the big change

The other half is divided between the lawyers, other experts, the litigation funding company and the investors. For added security, insurance is taken out to cover the risk of losing a case. The returns currently being offered range from 10% to 20%pa with a potential for 100% or more, depending on the selected level of insurance protection. With one company, an investment of £25,000 will earn the right to 1% of the awarded settlement in up to ten cases.

### ALWAYS KEEP IN MIND RISK VS. RETURN

So there you have it; you can definitely make a lot more money by taking a more adventurous attitude to investing. But you

---

**So there you have it; you can definitely make a lot more money by taking a more adventurous attitude to investing. But you must still. However, if you can afford to accept a degree of risk and step 'outside the box' there's a whole new world of opportunities! Just step with care, do your homework and get independent advice before making any commitment.**

---

is that it is moving from the domain of institutional investors such as pension funds and hedge funds to retail investors like you and me. Why is this? Because traditional sources cannot currently meet the demand. Many cases are never pursued because most people cannot afford to take on the big companies; neither can law firms afford to fund the cases. This is where litigation funding comes in. The funding company puts up the money if their analysis indicates at least an 80% chance of winning a case.

Usually, when the defending party realises that unlimited funds are available to fight the case it is happy to settle out of court. The plaintiff is quite content to take as little as half the awarded damages because he has taken on no risk at all.

must still keep your feet on the ground and maintain ample cash and some conventional investments. However, if you can afford to accept a degree of risk and step 'outside the box' there's a whole new world of opportunities! Just step with care, do your homework and get independent advice before making any commitment. ■

---

**PPi** Indonesia



#### Colin Bloodworth

Director of PPI Indonesia, has worked as a financial adviser in Indonesia since 1992. He is a Director of PPI Indonesia and can be contacted at COLIN.BLOODWORTH@PPI-ADVISORY.COM or +62 21 3004 8024.