

The newest spring fashion: Is it emerging or emerged?



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It is almost like the fashion season. Last year, renewable energy was in season, this year, clean-tech investing is en vogue. In spring the trend will turn to emerging markets. Maybe it is the alternative investment sector's answer to the hype of the latest, hottest stock trading on financial markets. However, hype it certainly is. Why? The answer is always the same: People want to sell investments and they need a gimmick to sell them. I was on the tram in Zurich and some very important young bankers got on the tram and started talking about Vienna, a presentation coming from London etc. Then they said on the phone: "The presentation and road show is ready, all we need is a subject-matter expert." Right, they were clueless about the actual deal, but certainly perfect on the packaging. Last season renewables, this season clean tech.

They have failed to realize this type of investment creation is the biggest trend out of fashion. Family offices are going directly to the "subject-matter expert". We are the subject-matter experts in most instances anyhow. Why pay considerable sums to all those people in the way of the actual investment? The fashion now is direct, strategic investment in real opportunities and real projects.

To give you a sneak preview of the coming season, we can look to emerging markets. Yes, this will be a hot item in the spring... Hundreds of funds and fund managers focus on those markets. One small thing – a number of those markets have emerged! Bankers who used to fly like crazy to Russia and started language lessons have now switched to China and are running after Asian money and learning Mandarin instead. The money is there because industry and business is there. China is now showing all the signs of a great economy, including building slumps, a rapidly growing middle class, imbalances in education levels and job opportunities and many other signs of stresses and strains, which exist in every country that has ever emerged from an agrarian base.

Other countries in Asia have also been extremely successful and are anything but "emerging". Just ask Swiss bankers about the results from their base in Singapore. Korea, Taiwan, Japan are hard to think of as truly emerging. Japan emerged long ago. Vietnam is stealing the show from China with lower labor costs. So you see, there is a patchwork in Asia with different trends and growth curves. This contrasts greatly with the overall perception that there is an Asian wall of wealth and riches with opportunity on every corner.

Not only is there a patchwork, there is also a rapidly growing market for investment opportunities within Asia and its own capital for the investment. Thus, like a fine wine, the best is often consumed in the local market before it is spread to others and finally to foreigners. Thus the Asian play is getting to be overplayed. When you start getting calls from "boiler rooms" in Asia selling investments in Chinese real estate, you know the real gain from this emerging-market opportunity is almost over. So if you are looking at investment in Asia, look at the deal, not the deal-maker. Then see how close the deal-maker (bank, fund, whatever) is to the actual deal. Are they local? Are they staffed with local nationals? The deals that finally come this way have often gone through the sifter on a local basis and dropped out, so be careful.

In spite of the fact that the Asian tigers have been tamed due to their success, there are countries around the world that do present significant emerging-market potential and returns. Brazil is a major alternative for investment to Asia. The same is for Chile. Australia hits the list too because of the raw-material resources available within these three countries. China has been on an aggressive buying spree to secure raw-material resources around the world. Also, the investor world has looked to commodities to provide returns that stocks and bonds have often failed to provide over the past few years.

Going a little further into the emerging world, one can start to take a look at the African continent. High risk, high return. That is an emerging market. The deals in Asia really start to look like normal development opportunities, just with an Asian perspective. You can certainly make money, but it is not the real play on an emerging market any more.

Remember too, if the person asking for your investment needs a "subject-matter expert", you know he, or she, too will soon be out of fashion.

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