Post Crisis Investor’s Rationality in Assets Allocation Management *(written March 2010)*

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Where to invest and how to increase the value of your assets, in other words how to make money, is becoming an important issue since July 2007, date when we heard about Subprime crisis, till actual early 2010. It’s a common issue raised by different global investors that awaits a proper answer through current investment climate.

In fact, every investor, whether in stocks, bonds, commodities, futures, property, business or any other form of investment, has worried from three rivals that have caused more investment losses than all other reasons put together. In this article, I will identify these worries and give some recommendations for resolving them.

The first worry is Panic.

Being in a panic situation is a result of fear. Everyone needs a certain amount of fear in order to function effectively in the world. In fact, if you were totally without fear, then you may be prepared for taking crazy risks. But, once fear gets beyond the healthy amount, it can be disturbing the investor, who would then enter in a panic phase. However, fear of making a mistake has kept many investors away from getting into real opportunities. You can’t win the game if you never enter the game. Let’s note that fear of taking a loss has caused many investors to stay in an investment long after wisdom would have told them to cut their losses and move on. This often leads to huge losses. The best cure for this type of exaggerated fear is to embrace risk management: study all you can about risk management and make risk assessment and risk management planning two habits so well practiced that they become part of your nature.

The second worry is the lack of knowledge.

It is amazing how many people are so keen to collect investment profit that they don’t take the time to learn the skills of the game. If you don’t know what you are doing, then the market will soon chew you up and spit you out broke. As an investor, you need to develop a passion for learning everything you can about your field of investment, and you need to develop the skills of tracking down and networking with others who know what you don’t know. The first skill to learn is how to know when you know and when you don’t. If you think being aware of what you know and what you don’t know is easy and obvious then look at almost any teenager. They know virtually nothing about life, yet they are so totally unaware of this simple fact that they come to the conclusion that they know everything. Don’t be a teenager when it
comes to investing.

The third worry is the greediness.

If you addressed a seminar room full of people and told them that you could put them into an investment that would give them a guaranteed return of 20% on their money each and every month and all what they had to do was invest $100,000, then you would find a large number of those people running to the bank to mortgage their house so they could get you the $100,000. Why are so many people so naive? Why some “smarts” are stealing people’s money every day? Because of greediness!

Being greed drives people to look at the possible profit without assessing the probable risks. Most investors have a degree of greediness and it is a constant battle to keep it under control. Professional stock market traders control greed by developing a set of trading rules and the self discipline to stick to them.

If you are a serious investor then it would be wise to step outside yourself and take a solid realistic assessment of where you currently stand in relation to Panic, lack of knowledge and greediness.

Let us check now the preference for an ideal asset allocation for our portfolios. If we believe that recent crisis is not yet over and some bankruptcies might still occur, then we should definitely be away of all kind of securities industry investments, equities and fixed income, but would focus on short term tools such commodities and foreign exchange markets.

On commodities.

Especially during hard periods, people would go for precious metals and mainly gold as a smart investment move. It is undeniable that gold has been viewed as one of the oldest and most valuable commodity in the world. It is universally understood that not only does it look good when made into precious articles of jewelry, the habit of investing in gold can also bring the investor untold riches because gold is one of the most stable material in the category of precious metals.

The gold market has always been bullish and is steadier when compared to other investment means such as the stock market and the FOREX scene. Other commodities such platinum and palladium in the base metals category are not a preferred means of investment because they are too easily influenced by the state of the world economy. Gold is not affected easily because it is a universal currency recognized by every single bank across the globe.

Why buy gold?

Here are three solid reasons why buying gold may be your best investment move ever:

- Gold can protect you against the weakening currency. No matter which country you originate from, there is a chance that your country’s currency will suffer a downfall at a particular point of time. Gold, on the other hand, retains its true value and can help you protect your riches because it does not rely on the state of the country’s economy, whether it is on the up or
downtrend. Take the US dollar for example. For years now, terrorism and political rife have caused the dollar to appear very unstable, and perhaps increasingly undesirable. When the US dollar continued its decline between the years 2003 and 2004, the value of gold continued to ascend.

- Gold is your wealth insurance during wars, natural disasters and political unrest. If you have previously invested in the stock market or the FOREX market, you would realize that financial markets such as these are very easily affected by global happenings such as terrorism and war. The 9/11 tragedy is a good example how financial markets can be at a decline for extended periods of time and can cause billions of dollars of investment funds to be lost. Gold, on the other hand, will maintain its stability even when times are bad.
- Gold provides excellent price appreciation and untold profits. After the infamous stock market bubble burst during the early turn of the millennium, many investors realized that they are better off putting their equity in something more stable and enriching to their investment portfolio. And unlike other financial markets, investors can invest in gold for better peace of mind as they need not worry about the consequences that come with inflation.

When NOT to buy gold?

It is not sensible to buy gold when there is an uptrend. If it is suddenly deemed “trendy” to invest in gold due to widespread speculation, chances are that gold prices will drop very soon, leaving you devoid of your hard earned investment funds. Be wise and learn when is the right entry point when you want to grow a gold egg bubble.

Does it pay to invest in gold jewelry?

The answer is in the negative. Investing in gold jewelry will not get you returns as lucrative as profits garnered from investing in gold bullion, bars or coins. This is because there are additional charges involved including processing cost if you want to liquidate your gold jewelry assets.

What about Foreign Exchange Investment?

As mentioned earlier, selecting the base currency of your investment is not an easy matter; it is subject to your knowledge in FOREX market. Forex market or foreign exchange market is a place where you can buy and sell different currencies. When trading different currencies you make a lot of money on the fluctuations of exchange rates between currencies. Currencies fluctuate constantly against one another no matter what is the economic condition in individual countries. In short, Forex trading is a recession proof business. One of the most unique features of Forex market is that it offers a huge potential to all its customers; both companies and individual traders have equal opportunities in Forex trading. There is a big potential to benefit from high advantages. Forex market is interesting for speculators as well as for beginners. No experience whatsoever is required if you make use of a quality trading system. You can trade from anywhere. If you like making money during your holidays, then this is definitely a dream business for you. Just take a laptop and you will be able to trade Forex and earn money anywhere. You have complete freedom of location. In fact, Forex is the most liquid and the biggest market in the world. Overall volume of foreign exchange market during a trading session is approximately $2 trillion. Almost all this amount involves trading of major currency pairs. By awaiting an expected worldwide economic recovery that would put an end to current crisis, international investors are keen to adopt a “hit and Run” strategy for short term investments. Let us wait and see.