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# Take Charge of Your Financial Destiny

**Financial Planning. Mortgage Management. Asset Protection**

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**Investing In Volatile Times**

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## Investing In Volatile Times

*~ Navigating the storm in the horizon ~*

Nobody enjoys seeing his investment portfolio going into the RED. When you made the decision to invest, it was with the aim of making hefty profits, not losses. Yet, the storm brewing in the US and Europe isn't something that you really expected, and you're at a loss as to whether you should sell, hold or perhaps, invest more.

The decision is going to be tough, and staying calm in a sea of panic is going to be tougher.

Despite what may seem to be an uphill task, staying level-headed is not that impossible, as long as you take the time to understand what investments are all about, and the crisis that seems to be looming in the background. Taking the time to read this article will do just that.

### Volatility – A Necessary Friend

Like it or not, volatility is the common denominator of all investments. Whether you are investing in stocks, bonds or currencies, or into something exotic like ostriches or art, volatility is the one feature that is going to be present in all of them. Think about it: isn't volatility – the thing that you hate the most right now – the sole contributor to your profits?

That oft-quoted adage, "High risk, high returns" is just a more clichéd expression of the fact that volatility equals profits.

Thus, before you kick yourself for making the investment decision in the first place, remember the equation: Investments = Volatility = Risk. It is a reality that you have to face when you decide to

invest, and as long as you don't liquidate your positions, volatility – at the present moment – still does not equate to losses.

### Triple Whammy

The recent bloodbath in the markets is nothing more than just a crisis of confidence, a crisis sparked off by what I term to be the triple whammy of global economics, which include:

- The downgrade of the sovereign credit rating of the United States of America;
- The brewing debt crises in Europe; and
- The slowing down of the global economy.

### Whammy #1: Uncle Sam Has Been Downgraded

On 5 August 2011, world-renowned credit rating agency Standard and Poor's (S&P) took the unprecedented step of downgrading the US from its AAA rating to an AA+, something inconceivable since Uncle Sam attained this top rating in 1917

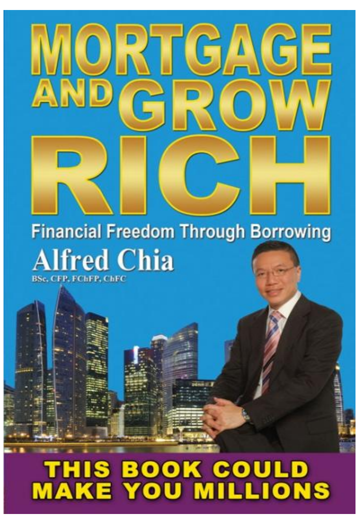
For those who might be unfamiliar, the AA+ grading is just one notch lower than the AAA rating, and a rating of AA+ still places the country within the investment grade

## Financial Prudence for Governments and Individuals

Having been in the financial planning industry for the past 18 years, the first thought that flashed through my mind when I heard about the downgrade was, "What took them so long?"

Without proper planning, no one – governments included – can reasonably expect to prosper by taking on debt after debt. Financial prudence is just as relevant to governments as they are to individuals. One cannot expect to solve their financial problems by using money that has yet to be earned to cover the expenses of today.

In my book, '**Mortgage And Grow Rich'**, I emphasised the importance of being financially sound before one should even think about using debt as leverage. So perhaps Uncle Sam can consider buying a copy of my book? :)■




Other rating agencies like Moody's and Fitch have left Uncle Sam's sovereign credit rating untouched, though they have warned that additional deficit-reduction measures are required if the rating is to remain so in the future. So what is this big fuss about the downgrade all about?

The US – being the world's largest bond market – is a place where many other countries deposit their foreign reserves. One example of these countries would include China, which holds more than $1.0 trillion worth of US Treasury bonds. Being the US largest foreign creditor, the land of the dragon has been very critical over how the US has been handling the debt issue, and the way they are raising their debt ceiling.

Yet, the fear surrounding the downgrade is much misguided. Many governments around the world, including Singapore, have expressed confidence in the US Treasury.

Instead of being an alarm, the downgrade should serve as a wake-up call for the US government to recognise the need for them to bury political hatchets, and to focus on reducing their debt. This will be good for the global financial system in the long run, which seriously does not need another shock since the global financial meltdown.

### Whammy #2: Europe Is In Debt

Europe – with its old school charm in the likes of countries like Italy and Spain – is mired in a debt so deep that global markets are worried. Due to uncontrolled overspending, countries like Greece are now saddled with a debt that is larger than its national economy. While things might look bleak at the moment, I do believe that not all hope is lost. The combination of the European Financial Stability Fund (EFSF) – when its use has been confirmed by parliaments – and the purchase of Spanish and Italian bonds by the European Central Bank (ECB), in the meantime, should provide stability to the markets. Europe will certainly need more time to sort out their problems but the European Union (EU) has demonstrated their commitment to resolve the hanging issues. The EU, being an economic and political union of 27 member states, will stay united as it is in their benefit to do so.

### Whammy #3: The Global Economic Locomotive Is Shifting To Lower Gear

The third and final attack on confidence in the markets is the slow-down experienced by the global economy. Economic data released recently indicated that the slow growth scenario is indeed playing out in some developed economies. And with China's inflation hitting record highs, the fear is that further monetary tightening will result in a hard landing.

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The slow-down, together with fears of further monetary tightening in China, has raised fears that the world might be going into a recession. While such fears might seem logical, especially in the presence of cyclically weaker economic data, a full-blown recession remains very unlikely because of emerging markets.

Other than that, very positive signs are also showing themselves. Since the subprime crisis of 2008, US consumers have become more prudent as they have taken to cutting down on their spending and rebuilding their savings. Many US companies are reporting strong earnings and very healthy balance sheets. The US Federal Reserve has also assured the markets that they will be maintaining the current interest rate till year 2013. The Chinese government will be watching the effects of their recent monetary policies as time is needed to scrutinise its effects. As such, the emergence of weaker economic data should be taken as an opportunity to invest in the market.

## Opportunities Abound In A Crisis

In the face of the triple whammy mentioned above, speculators have decided to ride on the wave of fear by stoking further panic by short-selling to add pressure to the market. Automated sales calls made by computerised trading systems further added to the pressure. In an environment where there's much rumour-mongering and consistent news of high borrowing costs, countries like France, Italy, Spain and Belgium have imposed bans on short-selling. Opportunities arise in a crisis, and markets always tend to over-correct themselves.

In any extreme bull or bear market, there will be excessive buying and selling. The current environment is definitely one where the 'bears' take it to the extreme. When the tide changes, however, 'short-sellers' – in all likelihood – may be converted into 'buyers' to either stem losses or ride the rising trend.

The issues, i.e. the triple whammy mentioned above, are not going to be resolved overnight. Markets will remain volatile until clarity is in sight. Yet, where clarity has returned, the market would already have risen, and any opportunity to profit from it would be long gone.

As Warren Buffett would put it, "Be fearful when others are greedy and greedy when others are fearful". Staying true to his own words, Buffett is buying into the current market.

Another good reason to invest now is the very low interest rate enviroment that the US Federal Reserve has committed to keeping low. With inflation rising, the need to ensure that our capital is working harder is all the more critical.

I'm not advocating that you should invest all your money now. You can't ignore the volatility in the market either. Opportunties abound when others are fearful but you will need prudence, the right strategy and an informed adviser.

One investment strategy that I really like is 'Dollar Cost Averaging' (DCA) which is really effective in a volatile market. Applying the DCA methodically will enable you to invest in the market without the accompanying emotions of fear and greed.

And when the crisis of confidence is eventually resolved, you will be glad to know that your money has been working real hard for you.
To know more about DCA or 'Mortgage And Grow Rich', you can email me at **askalfredchia@gmail.com**. You can also visit me at **www.alfredchia.com** to pose a question and be updated of the latest courses, seminars and articles about financial planning, mortgage management and asset