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Tectonic Shifts in Wealth Management

On August 28 2020, the Chicago Booth Alumni Club of Singapore, Hong Kong and Zurich hosted a joint webinar inviting alumnus: Ivan Chelebiev ('16), Christina Lee ('13), and Oliver Banz (Moderator, '05) to discuss the impacts of recent events on Global markets and trends in Wealth Management.

Recent Trends in the Region

Christina (Hong Kong): The recent unrest in Hong Kong resulted in a large outflow of assets from ultra-high net worth individuals (UHNW) and family offices. Their new destinations being:

1. Singapore; due to its proximity, similar time zone, and low language barrier
2. UK; due to the pound weakening, low real estate price, and its ties to Hong Kong
3. US; because it has not signed a tax data sharing treaty with China. This implies that US wealth managers do not have to disclose information about their clients.

Ivan (Singapore): Singapore is building a fund management destination to rival the Cayman Islands. Currently, a Cayman domicile is the gold standard for hedge funds due to its tax advantages and proximity to the US. However, Singapore has put up a whole-of-government effort to establish a new hotspot for manager by matching the tax advantages and subsidizing the entire value chain. Since it is a government initiative, although speed might not be the project's biggest strength, the scope certainly is.

New Trends and Regulations in Asia

Christina: In Hong Kong, we are seeing a rapid increase in the number of family offices and trusts being set up by UHNW individuals due to the changes in regulations, increasing sophistication of the investors, and a shift in preference toward more flexible services by the younger generation within UHNW families. Furthermore, seasoned bankers are leaving bulge bracket banks to launch their own advisory practices backed by these family offices.

Christina: China has recently imposed new anti-tax evasion regulations and adopted the Common Reporting Standard, a deal to share account information between OECD countries (except US). As a result, there is an increase in administrative tasks that wealth managers need to perform, from performing extensive background checks, to filing additional paperwork. This increases the operating cost of running a wealth management business for Asian clients.

Global markets in the age of Covid-19

Ivan: We are facing a strange, liquidity-driven rally, and it's moving at "warp speed." However, fundamentals always dominate in the end. And this time around the fundamentals are VERY VERY weak.

The Covid-19 recession is unprecedented in every metric: its cause (virus), its depth (worst in 100 years), its duration (shortest in 100 years), the size and scope of stimulus (earliest, broadest, largest policy response in history), it's market impact (fastest-ever drawdown and retracement), it's ramifications (social, economic, and geopolitical fallout will be with us for the next five years).

Clearly, Covid-19 is not a civilization-ending event. The best minds in world are racing to solve it. They are backed by unlimited resources. Most likely this is the last pandemic in our lifetimes. We'll adapt the way we work and live, just like we made many changes after 9/11 and the GFC. And we'll have incredible leaps in technology to contain future viruses.

On the other hand, reversing globalization is NOT a zero sum game but something far worse. Nations will strive to become less dependent on one another, especially for food and medical supplies. This will have strategic implications. Nations will have less of a stake in each other's wellbeing. They will focus on dividing the pie rather than working together to enlarge the pie for all. It will be a less prosperous world, and a more troubled one.

Christina: The market crisis generated mostly excitement among my clients. SARS has taught Chinese investors to see systemic shocks as buying opportunities rather than disasters.

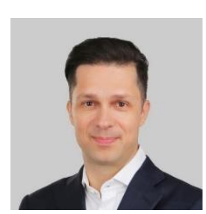
So, what should we do with our money?

Ivan: Historically, the standard allocation framework mixed public and private equity, hedge funds, real estate, and bonds. A large emphasis on bonds made sense as a natural hedge for economic weakness. It was a boring but effective strategy, and it worked while interest rates marched lower over the last 40 years. However, with rates at 0% for the foreseeable future bonds offer only downside. Furthermore, managers have pushed their mandates to survive in a narrow, tech-driven market. Portfolios that look diversified on paper are mostly relying on growth. There is no ballast in a zero interest rate world.

Against this backdrop, it is critical to diversify across every dimension of risk, and rebalance regularly. Diversification can come in many ways. For personal investors, this might mean selling the large tech stocks that have dominated the market in recent times and buying value stocks. For larger investors, this entails analyzing managers by looking at their actual holdings, rather than assuming labels and categories reflect their true risk exposures.

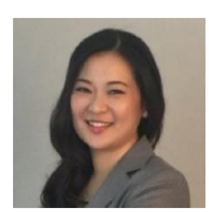
Additionally, the recent surge in commodities such as gold and silver appears to be driven by pandemic-induced fears about debt, inflation, and geopolitics. Each of those can be hedged directly rather than by buying gold. Gold's value and its defensive properties are highly speculative and don't merit a large allocation.

Guest Speakers



Ivan Chelebiev, '16

Portfolio Manager and Co-Founder @Chicago Global



Christina Lee, '13

Director @Credit Suisse

*This is only a brief summary of the webinar. To learn more, please visit: https://www.youtube.com/watch?v=3kp2DNshMa4