executive Money

THE BUSINESS TIMES Wednesday, February 27, 2008

'Asia will benefit from the huge fundamental growth and prosperity sweeping across the region.'

– *Technical analyst David Bensimon*

Spot on with the near-term calls

The principle behind technical analyst David Bensimon's accurate forecasts lies in the symmetries in markets, reports **GENEVIEVE CUA**

MAKING forecasts is a tricky business, as many analysts and fund managers will tell you, but it does not faze technical analyst David Bensimon. Some of his calls on the markets have been so precise that on one of his speaking engagements, it spurred an impromptu bidding war among some in the audience for an on-the-spot copy of his award winning tome on markets, *Polar Perspectives*.

One of the bidders paid for his copy with a gold coin. Worth about US$700 then in November, it was about equal to the price of the book. But the coin has since appreciated, as Mr Bensimon notes with amusement.

The book last year won a gold medal as the "best book in finance/investment/economics" at New York's annual independent publishers awards.

Mr Bensimon's fundamental view is that most of the world – Asia in particular – is in for a "prosperity-driven inflationary era" over the next few years, notwithstanding the jitters over the credit crisis. His long-term view, for instance, is that the Straits Times Index (STI) will hit 9,000 and the Hang Seng Index 100,000 by 2012; and gold will climb to US$2,600 an ounce by 2014.

He has set up a fund to invest according to the themes of his book. One of his first investors is Stephen Riady of the Lippo Group.

His forecasts may sound quite incredible, until you learn of his near-term calls on markets which have turned out uncannily right. Last October, for instance, he told an audience in Singapore that the STI would fall 15 per cent from its level of 3,900 then to 3,300 shortly. The index fell from 3,906 to 3,306 within six weeks of his call. In *The Business Times* in August, Executive Money quoted him as saying that the STI would fall to 2,800; the index was then at 3,300. It fell to a low of 2,866 in January.

The principle behind Mr Bensimon's calls lies in the proportionalities and symmetries in markets, which he sees as functions of "phi", also called the "golden mean". This is expressed in the number 1.618 and its inverse 0.618. As he sees it, these symmetries permeate markets, and this is evident in the scale of market rises and even in the pattern of retracements across time. His calls have gained a following among banks, traders, hedge funds and private individuals.

Mr Bensimon: *Asia is in for a prosperity-driven inflationary era*

The outcome of a forecast, he says, is not cast in stone but is based on probabilities. "The power comes not from saying that markets will do this or that. It comes from recognising that different alternatives can unfold," he says. "The benefit is not to say the market might go up or down, that's not of value to anyone. The value comes from being able to say that if the market chooses this northward path, it will go this far and no more. If it takes the southward path, it will go this far to a target.

"My speciality is to provide clients with a magnitude of duration and time, of price and specific levels and dates . . . March does provide a broad turning point that crosses different markets, not just the STI or equities but across a spectrum."

He believes the STI, currently trading at the 3,077 level, could still face yet another downdraft. It needs to exceed 3,300, he says, to confirm that it is out of the woods. Until then, there is a "distinct risk" that it could fall another 15 per cent to 2550, which will be a buying opportunity. "In Singapore if we break the 2,850 level, the next level down is 2,550 which seems a little far and rather cheap. But these motions are driven by panic and over-extension on the downside. But I'd be happy to invest anywhere from 2,800 to 2,600 because at those levels, it's really very cheap."

He said: "One of the benefits of looking at the very big picture history is that it provides a degree of comfort and confidence that when we are in a corrective mode, instead of being worried and panicking, we can be comfortable that we know what the rhythm is and can recognise the relationships. We know we'll get to the ultimate target of 8,800 or higher several years from now, and there are natural levels to re-enter the market."

His view is that Asian markets – Australia, Shanghai, Singapore and in particular, Hong Kong – will move in synch upwards. "Asia will benefit from the huge fundamental growth and prosperity sweeping across the region, that is not in any way harmed by the slowdown in the US. Asia now has enough internal demand and intra-Asian trade and infrastructure and consumer spending that it has a life of its own."

He notes that historically, in past US recessions, the stock market has anticipated a recovery and rises well before the recession ends. "There is no impediment to have markets bottom in March, and have them recover sharply even if a recession technically continues in the next few months."

His views on oil and gold are positive but not equally so. He expects oil to reach US$125 a barrel this year and to move sideways for two years. "We're still en route to US$125, but the big story is that once we reach US$125, everyone will scream that we're on the way to US$200 and that's not what's going to happen. "

The catch, too, is that consumer prices will not be adjusted downwards during the consolidation period. "The margins for products will be fabulous and will power the stock market to much higher levels because the reduction of the oil price will translate directly into the bottom line for corporates in the industrial and financial sectors, telecom and blue chips. They'll all be lifted by prosperity."

He is bullish on gold in the long term but expects some consolidation this year before it moves to US$1,030 an ounce in 2009, and eventually US$1,220 in 2010. But the most rapid rise is expected between 2011 and 2014 when he expects the price to hit US$2,600.

Bringing investment principles to life

By **GENEVIEVE CUA**

TECHNICAL analyst David Bensimon has set up a Singapore domiciled fund to invest according to the principles in his book Polar Perspectives.

The Polar Prosperity fund is open only to institutions and accredited investors, at a minimum investment of US$1 million.

"The fundamental theme of my book is that we're in a prosperity-driven inflationary era," says Mr Bensimon. "Mine is not a high-frequency trading model. It's an investment model that looks at finding the key turning points and holding the positions for the substantial rises in the coming years".

He is reluctant to speak of target returns for the fund: "There is no target per se. The purpose is to bring to life the ideas of the book, finding the turning points and allowing the market to rise without high leverage".

The fund will invest in listed futures and options, spot and forward foreign exchange contracts and cash.

Management and operation fees annually will be 1.618 and one percent respectively. For those who exit before September 2010, there is a redemption fee of 2.618 percent.

Performance fees of 25 percent are also applied on the cumulative returns after three years.

Risk and leverage are expected to be moderate. "The fund will use listed futures and options primarily for the convenience of accessing positions in major stock indices and commodities, and not primarily for the purpose of increased leverage," says the prospectus. "One of the reasons I chose not to have high leverage is that I think there is a big percentage to come in the markets, so you don't need leverage," said Mr Bensimon. "Why take the risk of doubling or tripling up? The market itself will deliver a beautiful return as it did between 2001 and 2004."

MONEY MATTERS

Resilience amidst doom and gloom

Three important principles for the successful investor

SO MUCH for the Capricorn Effect. Historically, January has usually been a great way to start a new year in terms of portfolio investment returns. But 2008 began with a global market dive that put fresh fears in the minds of investors. In the last few years, investors have been enticed by high returns, and couldn't get enough of commodities, resources, emerging markets, property and thematic mutual funds in the bull market. More and more hard-earned money went into high-risk esoteric stuff, in a whirlpool of greed and overconfidence. There was little interest in shoring up the foundation with cash, bonds and equities. It was just too boring.

While it is impossible to predict the market reaction to the sub-prime debacle, investors should not be surprised when the consequences do appear. And when the markets get hit, disciplined investors should not act upon these events without keeping in mind three important principles outlined below. Our advice philosophy centres on a high level of engagement with clients which offers peace of mind. And our advice is based on three distinct bodies of research that come together to give resilience and courage in trying times like these. The three dimensions required for confidence and control are behavioural economics, Modern Portfolio Theory and happiness research.

◆ Behavioural economics: avoiding mental shortcuts

Where classical economics predicted rational market behaviour, behavioural economics emerged to bridge the gap between head and heart to explain emotional biases in decision-making. Here are three examples that illustrate investor psychology in recent times:

Loss aversion refers to a strong preference for avoiding losses over achieving gains. Studies by Tversky and Kahneman (Nobel Prize for Prospect Theory) have demonstrated that the pain induced by loss is twice as powerful as the pleasure derived from gains. A real life example is an investor who sat on a 40 per cent unrealised gain in a China fund in 2007 and later felt like he had lost the lot when the Shanghai index declined by 18 per cent last month. The psychological hurt from the loss may cause this investor to behave irrationally. Exiting the China fund may or may not be the sensible move but over-reacting due to the loss is an example of emotion taking over rational behaviour. The accompanying chart shows that the level of volatility in global equities has risen dramatically since mid-2007.

ROY VARGHESE

Myopic loss aversion explains the tendency to focus on the here and now. People find it unnatural to train their thoughts on the long term when there is an immediate crisis. Well-coached clients recognise that time will heal the pain of a temporary decline in their portfolio's valuation. Herd mentality describes how individuals can act together without planned direction. Evolutionary biologist W D Hamilton observed that each individual in a herd reduces the danger to itself by moving as close as possible to the centre of the fleeing group. According to this study, the herd appears to act as a unit in moving together, but in reality it is the result of uncoordinated behaviour of self-seeking individuals.

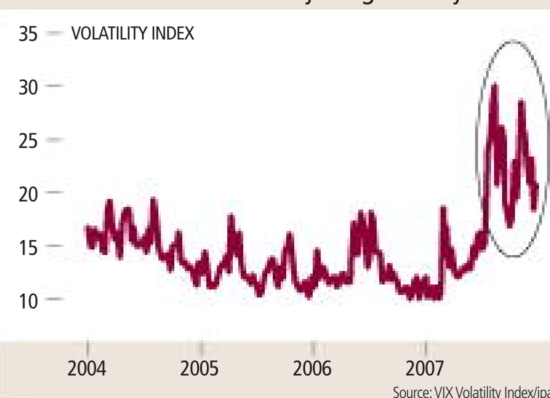
In the Singapore context, what is the real problem with mid-tier residential properties? There appears to be a hiatus in the property market even though the fundamentals and long-term prospects are positive. The herd decided to pause because of the sub-prime negative sentiment. The individual investor who is serious about a home upgrade should be confident about taking advantage of the lull and not worry about the mindless herd. The same goes for quality global equities. If the market is at a discount, should this not be the time to load up on quality securities? Let's not take mental shortcuts and confuse price with quality.

◆ Modern Portfolio Theory: need for diversification

The 1990 Economics Nobel Prize winner Harry Markowitz's Modern Portfolio Theory (MPT) set the stage for sound investment strategy. The model explains the benefits of diversification and risk-return trade-offs in portfolio construction. Asset classes with less than a perfect correlation will reduce the overall risk of the portfolio so that investors have a coping mechanism when markets go up and down. A globally diversified portfolio of cash, bonds and equities will prevent a free-fall when capital markets are tumbling.

On the rise

Markets were characterised by rising volatility



By the same token, a global portfolio is unlikely to deliver a 40 per cent gain like that China fund in 2007. MPT assumes that investors are risk averse unless an investment adequately rewards them for the extra risks involved. This is where most investors think they must take on more risk to achieve financial success. But, really, we should take on no more risk than we need to. Once you know what return you need to meet your investment or lifestyle goals, the expected risk (probability of loss and range of returns) can be quantified. Over the long term, risk-adjusted returns can be managed. If there is a 23 per cent probability of a capital loss of 10 per cent in the first 12 months, then the upside of a 27 per cent capital gain in the same period should be considered in the context of what can go wrong before the asset is acquired. Modern Portfolio Theory is an excellent tool to build a framework for patient long-term investing.

◆ Happiness research: positive psychology

The most popular undergraduate course at Harvard teaches happiness. Tal Ben-Shahar's course on positive psychology focuses on what makes people feel good. Happiness can be defined in many ways: contentment, joy, peace of mind, pleasure from external stimuli and so on. The body of research revolving around positive psychology expounded by Martin Seligman builds on the work of Abraham Maslow and the hierarchy of needs. It examines how people savour the positive feelings and emotions that are part of healthy living to derive a sense of well-being.

Now that we appreciate the common ways in which investors fail and the tactics to overcome mental mistakes, investors need a framework to understand the role of money and to implement financial strategies consistent with their values and goals. This process is what we call lifestyle financial planning.

Modern investment markets provide the opportunity to help people achieve their aspirations. The security of income is vital to achieving a sense of well-being even though evidence shows that there is no direct correlation between happiness and financial success. The most successful investors are those who have the confidence to pursue their own path and who have control of their emotions in the face of market volatility.

Roy Varghese is director, Financial Planning Practice, at ipac Singapore. He can be reached at roy.varghese@ipac.com.sg

Heed the call of the sea
and own one of Sentosa Cove's exclusive Seafront Bungalow Parcels.

Foreigners eligible to purchase bungalow land parcels, exclusive to Sentosa Cove and nowhere else in Singapore.*

Sentosa Cove Sales and Information Centre 1 Cove Avenue #03-01 Singapore 098537
• Website: www.sentosacove.com.sg • Email: enquiry_cove@sentosa.com.sg
• For enquiries, please call (65) 6270 0200 or fax (65) 6274 3301 / (65) 6274 3937
*Terms and conditions apply

SENTOSA COVE
SINGAPORE
The world's most desirable address

Introducing PureDeal: The ultimate CFD trading platform

Choose PureDeal for fast and fair online trading, with guaranteed market prices on Singapore Share CFDs. Plus a suite of trading tools to help you stay ahead of the market. Try our free Demo account and see for yourself.

Price Improvement
Our ground-breaking new feature helps you take full advantage of fast-moving prices

Reuters news
Plus real-time programmable charts and other professional online resources

Full market information
Over 7000 shares worldwide, plus indices, forex and more

Our products are geared and can result in losses that exceed your initial deposit. Please consider whether they are suitable for you and refer to the risk disclosure statement at www.igmarkets.com.sg to ensure that you fully understand the risks and costs involved.

ATIC FAIR 08
1-2 MARCH
STAND H01 & H03

IG Markets (ACRA No. 53059621X) holds a capital markets services licence for dealing in securities, trading in futures contracts and leveraged foreign exchange. IG Markets does not operate a securities or futures market.

www.igmarkets.com.sg
(65) 6390 5118

IG MARKETS